

Diocese of Bismarck

Financial Best Practices Guide

As of 10/03/2017

Contents

<u>Chapter/Topics</u>	<u>Page</u>
I. Parish Organization	1
A. Corporate Structure	
B. Parish Pastoral and Finance Councils	
II. Cash Handling & Disbursement	3
A. Collection Handling & Other Income:	
B. Annual Giving Statements.	
C. Cash Holding & Investing	
D. Cash Disbursements	
E. Tax Considerations for Vendor Payments	
F. Other Financial Items	
III. Parish Employee Payroll	14
A. Federal and State Tax Forms	
B. Other Payroll & Personnel Items	
IV. Property & Insurance	16
A. Property Deeds	
B. Third Party Facility Use	
C. Contractor Insurance	
D. Major Project Insurance Review	
E. Physical Security	
V. Policies	17
A. Employee Policy & Procedure Manual	
B. Parish Finance Process Manual	
C. Emergency Preparedness Manual	
Fixed Asset Policy	
Tuition Policy	

Diocese of Bismarck

Financial Best Practices Guide

I. PARISH ORGANIZATION.

A. Corporate Structure: Each parish is a corporation chartered under North Dakota state law. The Bishop is the president; the Vicar General is the vice-president; the pastor is the secretary; and two trustees are directors. This is the required corporate board structure for every parish in the Diocese of Bismarck. The annual report to the North Dakota Secretary of State Office for the parish has to be prepared following this structure with these board members. Parish articles of incorporation and by-laws should correctly reflect this structure.

1. The corporate board is responsible for parish governance, providing strategic planning, implementing diocesan policies and procedures, and complying with the mission of the parish and diocese.

2. The role of the corporate board requires that the trustees be active participants in the parish through involvement in the parish pastoral and/or finance councils.

3. Because the parish is a corporation, North Dakota Century Code Chapter 10-33 requires that the corporate board meet at least annually. We recommend the pastor and trustees meet shortly after fiscal year's end and document in board minutes the following:

(a) Review and approval of the financial report of the parish prior to its submittal to the diocese,

(b) Review and approval of the parish shared cost agreement for the next fiscal year (applicable to clustered parishes),

(c) Review and approval of the annual parish statistical report for the past year,

(d) Review and approval of actions of the pastoral/finance council during the preceding year, and any other actions of the corporate board.

(e) Additional online resources are available at <http://bismarckdiocese.com/corporate-board-minutes>.

4. In compliance with particular law (Synod 2016, § 254), the completed corporate board minutes (along with other financial documents) are required to be sent to the diocese in a letter to the chancery on an annual basis, no later than each September 30.

B. Parish Pastoral and Finance Councils: Particular law requires that every parish have a separate functioning finance and parish pastoral councils. Depending upon the size and activity at a parish, it is recommended that these councils meet monthly, but they must meet at least quarterly. The finance council and parish pastoral council must be separate councils with separate sets of minutes. These councils, as well as the corporate board, serve as an advisory role to the pastor only.

1. The finance councils of the parish and mission clusters should meet jointly at least annually to discuss any needed changes to their shared cost agreement. If circumstances make it impractical for these councils to meet jointly, it is acceptable for the cost share agreement to be presented to each council

Diocese of Bismarck Financial Best Practices Guide

separately. If this is the case, meeting minutes should document the discussion of this agreement as well as the approval. At the very least, the agreement should cover the cost sharing percentages for the pastor's expenses. Additional information is available online at: <http://bismarckdiocese.com/cost-share-templates>.

2. If a cluster wishes, they may combine their parish pastoral councils into one council (finance councils may not be combined). A Mutual Cooperation Agreement should be developed if such a structure is to be adopted. The agreement requires the Bishop's approval and signature. A sample agreement is available on the diocesan website at: <http://bismarckdiocese.com/mutual-cooperation-agreement>.

C. Additional resources concerning parish corporate board, trustees, and finance council roles and responsibilities are available on the diocesan website at the following URLs:

<http://bismarckdiocese.com/documents/Finance/ParishCorporateBoardandTrustees.pdf>

<http://bismarckdiocese.com/documents/Finance/ParishFinanceCouncilsRolesandResponsibilities.pdf>

<http://bismarckdiocese.com/documents/Finance/FinanceCouncilConst.-Bylaws.pdf>

<http://bismarckdiocese.com/documents/Finance/PastoralCouncilConst.-Bylaws.pdf>

<http://bismarckdiocese.com/documents/Finance/CombinedCouncilConst.-Bylaws.pdf>.

Diocese of Bismarck Financial Best Practices Guide

II. CASH HANDLING AND DISBURSEMENT: Parishioners regularly give donations to their parishes to allow for its continual functioning and growth. As such, it is the parish's responsibility to exercise good stewardship in the handling and use of these donated funds. This begins with the implementation of proper internal controls over the handling of income when it is received, how the funds are held and invested when received, and how the funds are disbursed.

A. Collection Handling and Other Income:

1. Mass Collections: Two adults (usually the ushers) need to be involved in the collection process. During Mass, the collection should be secured either by placing it at the altar until the Mass is ended or by securing it in a locked, fire-proof safe. If collection is not counted immediately following the Mass, the collection should be secured in a locked, fire-proof safe until the collection is counted. When it comes time to count the collection, the collection should be transported to the counting area by two adults. The collection should be counted by at least two unrelated individuals (if related individuals do count together, there should be an additional third unrelated individual). Because the bookkeeper handles the deposits in the accounting software, the bookkeeper cannot assist in the counting of collections, but they may supervise the counting process. Multiple counting teams should be formed and rotated from week to week. Collections must never be taken to an individual's home to be counted. During the count, counters should endorse all checks "For Deposit Only." Counters should use a tally sheet approved by the parish when counting the collection, and all counters should sign or initial the tally sheet indicating that it accurately reflects their count. A deposit ticket should be completed once the counting is complete, either by the counters or the bookkeeper. The deposit ticket should be reconciled to the tally sheet (along with any logs kept for other income received that is included in the deposit). Also, adequate records should be kept, either on the tally sheet or written on the giving envelopes, of individual parishioner giving amounts (to be used later to enter into parishioner giving reports). Once the deposit ticket is prepared, the collection should be placed in either a locked bank bag or a tamper proof bag (tamper proof bags are available for purchase from the Diocesan Office of Fiscal and Property Management. Some banks also offer them for purchase or free of charge). If the collection is not deposited immediately after the count, it should be secured in a locked, fire proof safe in the church until the deposit can be made. Collections should never be stored at an individual's home (or vehicle) until it is deposited. When the deposit is ready to be made, an authorized individual should transport the collection to the bank, while still sealed in a tamper proof bag. After the deposit is made, it should be entered into the accounting software by the bookkeeper using the proper income or dedicated accounts (dedicated accounts are used for restricted donations or diocesan/national collections). The deposit entered into the accounting software should be reconciled to the individual parishioner giving report (input based on the records used previously).

2. Electronic Funds Transfer (EFT) Collections: Some parishes may offer to their parishioners an EFT collection program where the parish withdraws funds directly from a parishioner's bank account at the direction and approval of the parishioner. Because this is a "pull" contribution by the parish, strong internal controls are required to ensure collections are treated appropriately. It is recommended that the parish designate specific dates that EFT withdrawals will occur. The parish must never make EFT withdrawals on dates other than these specific dates (examples of specific dates might be the 15th and final day of the month). The parish should require parishioners that wish to participate in EFT collection programs to complete a parish approved form that states the parishioner's name, address,

Diocese of Bismarck

Financial Best Practices Guide

bank account information, the amount of the withdrawal, and the frequency that the withdrawal should be made. The parishioner must sign this form, as this is the parishioner's authorization that the parish may withdraw funds from their accounts on the designated dates. Parishioners should not be allowed to request a withdrawal on a day the parish has not specified (i.e. if the parish has specified that it makes withdrawals on the 15th and final day of the month, the parishioner cannot sign up for a withdrawal on the 5th of the month). The parish must keep adequate records to ensure that parishioner requested EFT withdrawal frequency is being adequately followed. If a parishioner wishes to change any part of their request form, they must complete a new form; the parish should never make changes to the parishioner request form over the phone. After the EFT withdrawal occurs, the parish should update the individual parishioner giving report accordingly, and the bookkeeper should record the deposit in the accounting software, properly recording the deposit in income or dedicated accounts. The deposit should be reconciled to the individual parishioner giving report at this time.

3. Online Giving: Some parishes may offer to their parishioners the option to give online. The practice of handling online giving is similar to EFT collection programs, except that it is a "push" contribution, initiated by the contributor, not the parish. It is recommended, but not required, that the parish designate specific dates the online gift may occur. Most online giving software will allow the parish to restrict what dates a gift can be made. When the deposit occurs, the parish should update the individual parishioner giving report accordingly, and the bookkeeper should record the deposit in the accounting software, properly recording the deposit in income or dedicated accounts. The deposit should be reconciled to the individual parishioner giving report at this time. Additional information on online giving is available at: <http://bismarckdiocese.com/documents/Finance/Online%20Giving.pdf>

4. Other Income:

(a) Walk-in/Mail-in Collections: The parish must keep a log of all funds received either from office walk-ins or through the mail. These logs should include the date the funds were received, the individual that sent the funds, the amount of the funds, and what the funds were designated for (if the funds are designated). Two individuals should open all mail addressed to the parish; both individuals should initial the log of received funds to indicate the log is accurate. The parish should secure these funds in a locked, fire proof safe until the next deposit is made (at the very least with the weekly collections). If the received funds are a parishioner's donation, the individual parishioner reports should be appropriately updated. When the deposit is entered into the accounting software, the appropriate income or dedicated accounts should be used.

(b) Bequests & Memorials: Parishes periodically receive bequests and memorials from individuals; these bequests and memorials may either be unrestricted (able to be used however the parish sees fit) or restricted (designated to be used for a specific purpose). Like all other forms of income, proper internal controls should be exercised when receiving these funds, depending upon the method the parish receives the funds. When bequests or memorials are entered into the accounting software, appropriate income or dedicated accounts should be used. Additional information is available online at: <https://bismarckdiocese.com/recording-restricted-funds-method-guidelines>.

(c) Non-Cash Gifts: It is common for a parish to receive gifts in a form other than cash. Undivided estates, land, minerals and leases, producing oil or gas royalties, stocks, and bonds, to mention

Diocese of Bismarck Financial Best Practices Guide

a few, come to a parish. Transactions for these types of gifts can contain a wide variety of potential pitfalls if not properly addressed prior to the transfer. Improper transfer may significantly delay the ability to liquidate the asset or may reduce the asset value. Also, the transfer instrument may contain covenants, restrictions or liabilities that the diocese cannot accept. Careful consideration, including financial and legal counsel, may be necessary before accepting these types of gifts. If such an offer occurs, it is highly recommended that the Diocesan Office of Fiscal and Property Management and Office of Stewardship and Resource Development be contacted to assist in the proper setup of the asset before the transfer is made. Additionally, the parish must not establish/determine a fair market value for the donated asset for tax purposes; the donor must establish the value.

(d) Oil Revenue: Diocesan policy requires that when a parish receives oil lease or royalty income, the checks be run through the parish's demand fund with the Parish Expansion Fund. If this has not been done, the parish must communicate with the oil company and have all oil lease or royalty income checks sent to the following address: PARISH NAME, PO Box 1137, Bismarck, ND 58502-1137.

(e) SCRIP & Religious Article Sales: Special care must be taken with income received from SCRIP sales and sale of religious articles (as well as fundraising), as these items are generally handled by volunteers. The pastor must take an active role in authorizing individuals to perform this service for the parish, and must also periodically monitor the activity of these sales and expenditures. Two people should always be involved in these sales; no one person should ever be left alone with cash. The sales must be counted on the parish site by two individuals; these funds must never be taken home by an individual. A tally sheet should be used to count the sales, and the tally sheet should be signed and initialed by the counters, indicating that their count matches what is on the tally sheet. The funds should then be turned over to the parish so that the deposit can be made by the parish, and properly recorded in the accounting software.

(f) Parish Fundraising: When the parish (including any entity operating under the parish tax ID) wishes to have a fundraiser, the pastor must submit a letter to the Bishop seeking approval for the fundraising activity. This must be done for each event. A summary financial report must then be submitted to the Diocesan Office of Fiscal and Property Management after each fundraising activity. See websites: <http://bismarckdiocese.com/documents/Finance/BishopLetteronFundraisingMay2012.pdf> and <http://bismarckdiocese.com/documents/Finance/FundraisingFrequentlyAskedQuestionsMay2012.pdf> for further guidance.

(g) Third-Party Fundraising: The requirement to receive permission from the Bishop for all fundraising also extends to all Catholic entities, even those not operating under the parish tax ID. Though such groups are not under the jurisdiction of the parish, it is recommended that if a parish has Catholic organizations, such as Knights of Columbus or Catholic Daughters performing fundraising in their parish, the parish remind these groups that they are required to request approval from the Diocesan Bishop. The leader of this organization, not the pastor, should request this permission.

5. Additional Resources: Other online resources for handling cash or other income is available at the diocese website at: <http://bismarckdiocese.com/documents/Finance/ParishInternalControls.pdf>.

Diocese of Bismarck Financial Best Practices Guide

B. Annual Giving Statements: Parishes are required by federal law to provide any contributor notice of contribution if their annual charitable contributions/donations equal or exceed \$250.

1. These notices of contribution must include the wording, "**The parish did not provide any goods or services in whole or in partial consideration for the contribution or provided only intangible religious benefit.**" The Diocesan Office of Stewardship and Resource Development has published guidelines and forms to follow in accomplishing this requirement. Please contact that office if you need assistance or have questions regarding this requirement.

2. The annual contribution report to each parishioner is part of the internal accounting controls checks and balance system. Annual giving reports to parishioners in accordance with guidelines provided by the Diocesan Office of Stewardship and Resource Development must be prepared, at the very least, on an annual basis. These contribution statements must be reconciled to the books and records of the parish.

3. Periodically, a parish may receive non-cash donations (e.g. automobiles). When this occurs, the parish should acknowledge this gift in a letter to the donor. However, an estimated value of the non-cash gift should never be included in this letter. Instead, it is the responsibility of the donor to establish the value of a non-cash gift for his or her own tax purposes. The letter provided by the parish should simply state what the non-cash gift was. If the non-cash gift was a vehicle, the parish must issue IRS form 1098-C.

C. Cash Holding and Investing.

1. Bank and Investment Account Setup: All bank and investment accounts setup under the parish federal identification number must be in the name of the parish. No individual's name (including the pastor's) should appear in the account title. If the account is for a specific fund, the fund name may be included along with the parish name. Bank statements must be mailed to the official parish mailing address, not to an individual's home address.

a. In the event a parish is assigned a new pastor or a parish bank is questioning the authority of the current pastor, parish banks need to be notified in writing that the parish is a North Dakota corporation and not an association or other form of organization, see <http://bismarckdiocese.com/resolution-to-open-bank-accounts-template>. Furthermore, the bank documents should note that the parish corporation is exempt from taxation under a national letter of exemption issued to the Catholic Church in the United States. If necessary, a copy of this letter of exemption may be obtained from the Diocesan Office of Fiscal and Property Management.

b. The pastor must be the primary signer on all parish and parish organization(s) bank accounts using the parish's federal tax ID number. Should the pastor wish to add additional, secondary bank signers, the pastor must request written permission from the Bishop before any names are added to the bank's signature card. Because the bookkeeper controls all the records of the parish, often handles the deposits, and prepares the disbursement checks, the bookkeeper is not allowed to be an authorized signer on any parish bank accounts. The parish bookkeeper should only be the person that reconciles the bank statements.

Diocese of Bismarck Financial Best Practices Guide

c. Though all bank accounts do not have to be controlled by the pastor, the pastor must be a signer on all accounts setup under the parish tax ID. It is the pastor's decision to determine what groups or functions may maintain their own checking accounts under the parish federal tax ID number. However, the Bishop's permission must be given for all signers on these accounts. All account activity and fiscal year end balances associated to these accounts must be maintained within the overall parish financials for regular review by the parish finance council and included within the parish's annual financial report.

d. If the parish uses online banking or pays bills online, the corporate board must approve this process. The approval should be documented in the corporate board minutes.

2. Investments and Loans:

a. Expansion Funds: Particular law (Synod 2016, § 252) requires that parish investments, which includes all bank and investment accounts operating under the parish federal tax ID number, in excess of 90 days of operating expenses, be invested with the Parish Expansion Fund. The Parish Expansion Fund normally pays a higher rate of interest than the local banks and withdrawals can be made with 48 hour notice. In order to move investments to the Parish Expansion Fund, please contact the Diocesan Office of Fiscal and Property Management for assistance and see <http://bismarckdiocese.com/expansion-fund>) for more information. For long-term investments, the parish has the option to invest funds in the Catholic Foundation in lieu of investing with the Parish Expansion Fund.

b. Endowment Funds: It is important that endowment funds invested at local institutions have proper oversight and any conflicts of interest are avoided. The diocese encourages, but does not currently require, parishes invest their endowment funds with the Catholic Foundation for the People of the Diocese of Bismarck. For more information on the Catholic Foundation, see website: <http://catholicfoundationdob.com/index.cfm>.

c. FDIC/SIPC: The Federal Deposit Insurance Corporation (FDIC) provides insurance of checking accounts, savings accounts, money market deposit accounts, and certificates of deposit. This insurance is backed by the full faith and credit of the United States Government. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category. Amounts exceeding this will not be insured by the FDIC. The Securities Investor Protection Corporation (SIPC) protects against the loss of cash and securities (excluding investment loss due to market changes) held by a customer at a financially-troubled SIPC-member brokerage firm. The limit of SIPC protection is \$500,000. For more information, see the diocesan website for helpful information regarding the FDIC and SIPC at: <http://bismarckdiocese.com/fdic-information>.

d. Loans: Any parish loans should be evidenced by a written loan agreement. To assure proper and timely repayment of even short term notes, the parties should commit in writing to the terms and conditions of the loan along with executing an actual note. Any notes outstanding at year-end should be included in the parish annual financial report to the diocese. In the event a parish decides to take out a loan (either from a local institution or from the expansion fund), that loan may need to be approved by the Bishop using the resolution process. See the following links for more detail:

Diocese of Bismarck Financial Best Practices Guide

<http://bismarckdiocese.com/documents/Finance/ResolutionProcedure.pdf>
<http://bismarckdiocese.com/documents/Finance/BuildingProcessPolicy.pdf>

In the event a parish issues a loan to another organization, the loan must also be approved by the Bishop through the resolution process.

3. Reconciliations of Bank and Investment Accounts: Reconciliations must be performed in parish accounting software on all bank and investment accounts operating under the parish tax ID number. This includes, but is not limited to, checking accounts, savings accounts, certificates of deposit, expansion accounts, trust accounts, and other investment accounts. Reconciliations should be performed as frequently as statements are sent by the financial institution (usually monthly or quarterly). All bank and investment statements must be reviewed by the parish pastor; the pastor should initial or sign all bank statements indicating his review. Once the reconciliations are performed, the bookkeeper should review all outstanding transactions. While deposits and journal entries should clear the bank within a few days, outstanding checks older than two years, unless intentionally returned by the payee, should be reissued to the payee (if possible) or turned over to the Unclaimed Properties Division of the North Dakota State Land Department. For additional information on uncashed checks, see website: <http://bismarckdiocese.com/documents/Finance/Aged%20Uncashed%20Checks.pdf>.

D. Cash Disbursements.

1. Vendor Payments: The pastor must be the primary signer on all parish checks. He should not sign checks without reviewing the original invoice(s) and receipts (business purpose must be written on each receipt in order to determine validity of the purchase). When the pastor signs the check, he should initial the invoice indicating his review. If the pastor is absent and an approved alternate signer is required, the pastor should then initial and date the invoice and copy of the check indicating his review once he returns to the parish. The pastor or approved, alternate signers must never sign blank checks nor should blank checks be removed from the office to be prepared as needed. Signature stamps should never be used to sign checks. Paid invoices should be stamped "Paid," and the date and check number should be noted on the invoice at the time of payment. Note: Checks should always be used in sequence. Unused numbered checks should be safeguarded in a locked file cabinet and voided checks should be kept, but rendered useless and recorded as such in the accounting system in order to account for all checks by number. See also: <http://bismarckdiocese.com/documents/Finance/BookkeepBestPractices.pdf>.

2. Reimbursements: When a parish employee or volunteer seeks payment incurred on behalf of the parish, they should provide proper documentation (as defined by the IRS) for reimbursement. The receipt itself is not adequate documentation; clear business purpose must be written on the receipt by the individual requesting reimbursement. Many parishes develop a request form for use by employees and volunteers to receive reimbursement approval before making their purchase. Mileage reimbursements require use of logs and must contain beginning and ending odometer readings as well as the business purpose of every trip. Examples of reimbursement forms and mileage logs are available on line at: <http://bismarckdiocese.com/index.cfm?load=page&page=545>). Note: The parish should never pay an employee or volunteer without proper documentation.

Diocese of Bismarck

Financial Best Practices Guide

3. Credit Cards: Parish credit card usage is subject to all the accountability requirements of the employee reimbursement plan. Every transaction performed with a credit card should be documented with the original receipt and explanation of the business purpose. These should be retained and attached to the credit card statement they appear on. Parish credit cards should never be used for personal expenses. Any charges not properly documented need to be reimbursed to the parish. Failure to properly document or reimburse the parish violates the “accountable” reimbursement plan of the parish, requiring any such amounts be reported as taxable income on a form W-2 (or 1099 MISC for non-employees). Credit card receipts with documented business purpose should be turned over to the parish as they occur. The bookkeeper should enter each receipt individually into the ParishSoft ConnectNow accounting software using the credit card feature (*see <http://bismarckdiocese.com/documents/Finance/CreditCard.pdf>*). This allows the parish to track these expenses by vendor, and also allows the parish to reconcile the credit card statement with the accounting software. Reconciliations should be performed in the accounting software as frequently as statements are issued to the parish. Best practices surrounding accounts with local stores should be treated the same as credit card best practices.

4. Priest Living Expenses: Parishes sometimes provide the pastor and parish priests with room and board. The value of the meals is a tax-free benefit if they are consumed on the premise of the parish (rectory) for the convenience of the employer (parish), and the meals are a required part of the pastor’s working conditions. Meals away from the rectory must be for a documented business purpose. If the documentation does not include adequate substantiation of business purpose for eating away from the rectory, the priest must reimburse the parish for the value of the meals or it must become taxable income and reported on his form W-2.

5. Petty Cash: Parishes often times keep a petty cash box for employees to make small purchases on behalf of the parish. Because cash can easily be mishandled, it is important for the parish to exercise strict internal controls over the use of the cash box. Parishes should refrain from keeping a large amount of cash in the cash box at any given time. All parish purchases made with cash from the cash box must be documented with the original receipt, and business purpose must be clearly written on the receipt (similar to credit card and reimbursement rules). The parish must periodically, at a minimum once a month, reconcile the receipts to the physical cash balance in the cash box. If the parish is consistently short in its reconciliation, the practice of maintaining a petty cash fund should be discontinued.

6. SCRIP & Gift Card Purchases: Parishes often wish to support their local Catholic school by purchasing SCRIP to be used to pay parish expenses. Other parishes may purchase gift cards for simplicity reasons to avoid the reimbursement or credit card process. Because SCRIP and gift cards can be used in lieu of cash, they should be treated the same as petty cash. Parishes should never keep a large inventory of SCRIP and gift cards on hand at any given time. Parishes must retain a detailed log of all SCRIP and gift cards it has on hand to be used for parish expenses. All parish purchases made on SCRIP and gift cards must be documented with the original receipt, and business purpose must be clearly written on the receipt (similar to credit card and reimbursement rules). The parish must periodically, at least once a month, reconcile its log to a physical count of the SCRIP and gift cards on hand. If the parish is consistently short in its reconciliation, the practice of using SCRIP and gift cards to make parish purchases should be discontinued.

Diocese of Bismarck Financial Best Practices Guide

7. Outreach Payments: It is not uncommon for a parish to pay outreach expenses to assist individuals in need. In order for the parish to be a good steward of church funds, caution must be exercised and strict internal controls implemented over how outreach funds are used. The parish should have one individual that processes all requests for outreach funding. Adequate documentation must be retained documenting the name of the individual in need, what the need was, and how much the parish will pay on behalf of the needy individual. If the individual is requesting funds for fuel, the individual must provide current copies of their driver's license, vehicle registration, and proof of insurance. Outreach payments should never be made directly to a needy individual; payments should always be made indirectly (i.e. payment made to the landlord for a needy individual's rent, etc.). The parish should refrain from directing a large portion of its outreach funds toward one individual.

8. Resolutions: Capital improvements, major repairs, and any other extraordinary expenditure with a cost estimate in excess of \$10,000 must be approved by the Diocesan Bishop and Vicar General through the resolution process before the project may begin. Since each project may require a variety of board actions, it is recommended that the parish involve the Diocesan Office of Fiscal and Property Management prior to commencing with any extraordinary expenditure. For more information on resolutions see: <http://bismarckdiocese.com/documents/Finance/ResolutionProcedure.pdf>.

9. Cluster Cost Sharing: Many parishes are part of a "parish cluster," and often share costs of certain items that these parishes share (often priest expenses, envelopes that one parish orders for all parishes in the cluster, etc...). There are two methods of accounting for this, depending on how the "main" parish determines to bill the "mission" parishes.

a. Method 1: If the main parish bills mission parishes based upon a percentage of shared expenses (example: main parish incurs 50% of shared costs and the two mission parishes incur 25% each), the main parish must setup an accounts receivable for each of the mission parishes. When the main parish pays a shared cost bill, an expense should be recorded for the main parish for their portion, and an increase to the mission parishes' accounts receivable should be recorded for their portion. Periodically, the main parish should bill the mission parishes for the amount recorded in their receivables. When the mission parishes pay their bill, their payment should reduce the receivable, not be recorded as income to the main parish.

b. Method 2: If the main parish bills mission parishes based upon a set fee (example: the main parish bills each mission parish \$500 a month for the services the main parish provides to the missions), the main parish should incur 100% of all expenses. When the mission parishes pay their bills, the main parish should record the payment as income.

c. For more information on how to establish these processes in your accounting software and how to setup a cost share bill see the following pages at the diocesan website:

<http://bismarckdiocese.com/index.cfm?load=page&page=348>

<http://bismarckdiocese.com/documents/Finance/CostShareBill.pdf>)

Diocese of Bismarck

Financial Best Practices Guide

E. Tax Considerations for Vendors and Volunteers.

1. IRS Form W-9 (Request for Taxpayer Identification number and Certification): IRS form W-9 provides information required to determine if the parish must file and issue a 1099 MISC for a vendor or individual it pays for rents and services. The parish must require all new service vendors and individuals it pays to complete form W-9 before any services begin. If the parish does not currently follow this practice, it should send a request to all service vendors and individuals the parish currently pays to complete form W-9 to keep on file and verify that a 1099 MISC is not required to be issued. Any vendor that refuses to complete the W-9 form must not be used.

2. IRS Form 1099 MISC: If the parish pays an individual or unincorporated service vendor for rents or services and the total of their payments exceed \$600 for the calendar year, the parish is required to report the payments on a 1099 MISC at calendar year end. Mass stipends paid to substitute priests must also be reported on a 1099 MISC if the annual payments exceed \$600. For more information on Forms W-9 and 1099-MISC, see the diocesan website at:

<http://bismarckdiocese.com/documents/Finance/W-9%20and%201099-MISC.pdf>

3. Raffles and Gaming: Some parishes and their entities (altar societies, etc.) host a raffle or other gaming event in conjunction with a seasonal festival or other event. Raffles and gaming are regulated by both state and local governments. The parish should review requirements with the state and local governments when planning such an event. Also, if prizes are given to event winners, there may be tax reporting requirements, such as a IRS Form W-2G (Certain Gambling Winnings). The parish should review these requirements to ensure they are in compliance with tax reporting requirements. More information is available online at: <http://bismarckdiocese.com/raffles>.

4. Gifts for Volunteers: A great deal of work conducted at a parish is performed by volunteers. It is not uncommon for a parish to reward their volunteers with a gift for their hard work. In such situations, the parish should avoid gifting to their volunteers any monetary gifts (monetary gifts include cash, gift cards, and other cash equivalents). The IRS has strict guidelines when classifying an individual as a volunteer, one of which is that volunteers are not paid for their services. Paying a volunteer for their services could give someone justification to reclassify the volunteer as an employee or contractor, resulting in unfavorable tax liability for the parish and volunteer. Please note that deacons not employed by the parish are considered volunteers under IRS guidelines.

F. Other Financial Items:

1. Closing Months in ConnectNow Accounting Software: Important financial decisions are made by pastors and finance councils, largely based on the reports and statements provided by the parish staff. These reports must be completed in an accurate and timely fashion. Because accurate monthly reports cannot be given unless the month is closed in the parish accounting software, the parish's finance actions must be completed in a timely manner in order to facilitate closing of the month within 90 days of the month's end. If months are not closed, transactions can be made that affect financial statements the pastor and finance council have already used to make important decisions. Note: If the parish has a legitimate need to open a month that it has closed, they may contact the Diocesan Parish Resource Office to help them do so.

Diocese of Bismarck Financial Best Practices Guide

2. Transaction Details: All transactions in the accounting software should show detailed comments adequately describing what each transaction is for. If adequate comments are not used, and accounting errors are made, it is difficult to identify what each transaction is recording.

3. Annual Budgets: Parish budgets act as an internal control and provide guidance over spending. Parishes must annually prepare a formal budget. This budget should be reviewed by the finance council and approved by the pastor. Once approved, the budget needs to be input into the accounting software.

4. Archiving Accounts: For many different reasons, parishes periodically discontinue the use of certain accounts in their accounting software (asset, liability, income, expense, and dedicated). When this happens, it is advisable to archive the account (or delete if the account was never used). Archiving accounts can help reduce the risk of misclassification errors and reduce the need to reclassify transactions later. It is recommended that the parish periodically review a list of its active accounts and archive unused accounts at that time. A good time to perform this review is when preparing the annual budget.

5. Account Number Format: The diocese has mandated the use of a standardized format for developing account numbers in the accounting software. This chart of accounts is available on the diocesan website <http://bismarckdiocese.com/index.cfm?load=page&page=352>.

6. Negative Balances: Generally, accounts in the accounting software should not have negative balances. If accounts in the parish's accounting software does have negative balances, the parish should review the account detail to verify no errors were made (i.e. incorrect account was used in a transaction, etc.). If an error is found, appropriate adjustments should be made in the accounting software in a timely manner.

7. Dedicated Accounts: Dedicated accounts are used to record restricted/designated funds and diocesan/national collections. Payments to the diocese for diocesan/national collections are paid directly out of the dedicated accounts (acting as a flow through account). Such payments need to be made to the diocese within one month after the collection is taken. Payments of other restricted/designated funds must be recorded as expenses when paid. The parish then must reclassify the portion of restricted/designated funds used from the dedicated account into an income account. Please see the diocesan website for additional information on best practices for dedicated accounts at: <http://bismarckdiocese.com/dedicated-accounts>.

8. Parish Financial Record Retention: Retention of financial records is also an important issue since storage space is often at a premium. State law generally requires that the parish maintain its records for the current fiscal year plus the prior six. These prior years' records must be orderly filed using a system that allows timely, accurate retrieval for proper documentation and support. The details of what must be kept and what may be disposed of may be obtained from the Diocesan Office of Fiscal and Property Management online at:

<http://bismarckdiocese.com/documents/Finance/ParishRecordsRetention.pdf> and

<http://bismarckdiocese.com/documents/Finance/Retaining%20contribution%20envelopes.pdf>. The USCCB has also publishes guidelines regarding record retention that the parish should also follow. These guidelines can be found in the USCCB's Diocesan Financial Management (A Guide to Best Practices),

Diocese of Bismarck Financial Best Practices Guide

available at: <http://www.usccb.org/about/financial-reporting/upload/diocesan-financial-management.pdf>.
Records retention guidelines begin on page 124 of this document.

9. Working from Home: In some situations, the pastor may allow the bookkeeper to perform parish work from home. This practice, however, is not recommended as it does present some difficulty in proper protection of records from damage or destruction. All parish records should be kept at the parish or rectory in order to be covered by the parish's property insurance. If records are taken home for any reason, they should be returned to the parish property within 24 hours. Note: parishioner collections must never be taken or stored at an individual's home.

Diocese of Bismarck

Financial Best Practices Guide

III. PARISH EMPLOYEE PAYROLL.

A. Federal and State Tax Forms: The parish, or its contracted payroll agent, is required to file reports to the state and federal governments on an annual and/or quarterly basis.

1. IRS Form W-3 (Transmittal of Wage and Tax Statements) & W-2 (Wage and Tax Statement): At calendar year end, the parish is responsible for the correct preparation of the W-2's to be submitted to the federal government and to be distributed to individual employees for work performed during that calendar year. The year-end W-2 reports must be transmitted to the Social Security Administration via IRS Form W-3. The proper preparation of the W-2 form is very important because it is the basis of employee tax reporting. Errors on W-2 forms may result in errors on employee tax returns. The bookkeeper must verify the proper preparation of the W-2 forms and should contact the Diocesan Office of Parish Services with any questions concerning W-2 form preparation issues.

2. IRS Form 941 (Employer's Quarterly Federal Tax Return): Quarterly, the parish is responsible for the correct preparation and filing of IRS Form 941. The quarterly 941 reports should be reconciled each quarter and again at year-end with the payroll records for Income Tax, FICA and Medicare withholdings. The gross pay reported would include amounts paid to the pastor. At years-end, the four quarterly reports for the calendar year must also reconcile to the W-3 submitted with the W-2 forms.

3. North Dakota Tax Form 306 (Income Tax Withholding Return): The parish should withhold North Dakota income tax from its employee payrolls (priests exempted). North Dakota law requires employers to withhold and deposit quarterly (annually if the state has instructed you to switch to an annual deposit) any state tax withheld using ND Tax Form 306 (when paper filing) or the Taxpayer Access Point (When filing electronically). At years-end, the four quarterly (or annual) reports for the calendar year must reconcile to the W-3 submitted with the W-2 forms.

4. North Dakota Tax Form 307 (Transmittal of Wage and Tax Statement): Annually, copies of all federal W-2 forms issued must also be transmitted to the North Dakota State Tax Department using the North Dakota Transmittal of Wage and Tax Statement Form 307. The information on the Form 307 should match the information filed on the quarterly form 306 submissions and the federal W-2/3s.

5. Third-party Payroll Services: Though all parishes contract with an outside party to prepare payroll and the forms listed above, it is the parish's responsibility to review these documents for errors and bring any errors found to the outside party so that corrections may be made timely.

B. Other Payroll and Personnel Items:

1. IRS Form W-4 (Employee's Withholding Allowance Certificate): Payroll records must have a W-4 on file for all employees with the exception of priests. Priests are exempt from the requirement to have federal and state tax withholdings and should not have W-4's on file if they do not wish to have such withholdings from their paychecks (see also <http://bismarckdiocese.com/withholding>).

Diocese of Bismarck Financial Best Practices Guide

2. USCIS Form I-9 (Employment Eligibility Verification): The parish must have a Form I-9 on file for all employees, including priests. These forms are required by law and must be added to the parish payroll records. The parish should keep a separate I-9 folder to store these documents. Additional information on the I-9 Form is available at: <http://bismarckdiocese.com/documents/Finance/New%20I-9%20Form.pdf> and <http://bismarckdiocese.com/documents/Finance/More%20on%20the%20IRS%20I-9.pdf>.

3. Employee Management: The parish is required by particular law (Synod 2016, § 266) to keep written job-descriptions and goals and objectives for each position within the parish. This section also requires parishes to conduct annual, written, formal evaluations of performance for each employee. These evaluations should be kept in the individual personnel files. For additional information on items to be kept in employee personnel files see Chapter V of this guide and <http://bismarckdiocese.com/index.cfm?load=page&page=457>.

4. Workforce Safety and Insurance: In accordance with particular law (Synod 2016, § 265), parishes with employees must purchase workers safety insurance from the North Dakota State Office of Workforce Safety and Insurance. This insurance is designed to assist employees with medical bills in the event they are injured while at work. If the parish does not purchase this insurance, it could be held liable for employees injured while working.

5. Mass Stipends: The parish should control the Mass stipend account and write checks for Masses said. If the parish accumulates more Mass offerings than the parish priests can say within one year, the excess is to be transferred to the diocese where the offerings will be passed on to retired priests. Because a Mass Stipend is taxable income, payments should be paid through payroll and included on the priest's W-2 form. Additionally, *binations* (the second Mass, with an intention, celebrated by the same priest in one day) must be paid to the diocese to be deposited in the seminarian fund. *More information on Mass Stipends is available online at:*

<https://bismarckdiocese.com/documents/2016/11/Appendix18.pdf> and
<https://bismarckdiocese.com/documents/2016/11/Chapter%203.pdf>

6. Gifts and Bonuses: Any property/monetary gift (monetary gifts include cash, gift cards, and other cash equivalents) or bonuses paid/given to an employee is taxable income to the employee as a prize. Such prizes paid to an employee must be treated as taxable compensation, included on the employee's payroll, and included on the employee's W-2. Some parishes choose to give non-cash gifts to their employees. IRS regulation states that *de minimis benefits* (fringe benefits) such as holiday gifts (other than cash) with low fair market value and occasional parties or picnics for employees and their guests are exempt from payroll taxes. Non-cash gifts should not be extravagant so to retain a low fair market value. Additional information on *de minimis* fringe benefits is available online at:

<https://www.irs.gov/government-entities/federal-state-local-governments/de-minimis-fringe-benefits>.

Diocese of Bismarck Financial Best Practices Guide

IV. PROPERTY AND INSURANCE.

A. Property Deeds: All property deeds and abstracts are required to be on file with the Diocesan Chancery Office. Also, if the parish owns any mineral rights retained from property sold or received through bequests, these rights must be reported to the Diocesan Chancery Office in order to properly maintain property ownership records for the parish.

B. Third-Party Facility Use: If the parish allows third party organizations to use parish facilities, a “Facility Usage Indemnity Agreement” should be utilized. If third parties using parish facilities cannot provide proof of insurance, then applications for 3rd party special events insurance coverage should be filed. Please reference the annual letter on “Special Events Guidelines” sent to your parish by Catholic Mutual Group or these guidelines can be accessed via the diocesan website *at*: <http://bismarckdiocese.com/parish-post-articles> (See all posts under "Insurance and Safety").

C. Contractor Insurance: When the parish contracts with an independent contractor for a capital improvement or major repair, it must require the contractor to provide proof of general liability insurance, workers compensation coverage (or exemption), and performance bond. See also: <http://bismarckdiocese.com/parish-post-articles> – (all posts under "Insurance and Safety").

D. Major Project Insurance Review: All contracts with independent contractors over \$10,000 must be reviewed by Catholic Mutual before the parish signs the contract (note that this requirement is separate from the resolution process previous outlined above. For more information, see: <http://bismarckdiocese.com/documents/2016/10/DOBContractReviewPolicy.pdf>. When a project resulting in major capital improvements to the parish or its other properties is complete, Catholic Mutual must be notified so that necessary changes to the parish insurance records are made.

E. Physical Security:

1. Door Locks: The parish offices and churches must be locked and properly secured when no one is present. If a church is left unsecured when not properly monitored, there is the potential that someone could desecrate the Blessed Sacrament, not to mention that parish assets are left exposed to potential damage, theft and/or vandalism. We understand that parishioners may wish to have access to the church to pray, even during off hours. If this is the case, the church must still be secured and other arrangements must be made (<http://bismarckdiocese.com/parish-post-articles> - all posts under "Insurance and Safety").

2. Key Control: Parishes must maintain a key log that identifies all individuals with keys and to which areas/entries they have access. This key log is to be periodically reviewed to verify accuracy and key accountability.

F. Cemeteries: If the parish has one or more cemeteries associated to its parish, these cemeteries should be included on the parish's Catholic Mutual property ledger page. All cemeteries associated to a parish need to have a named Sexton (an individual responsible for the care of the cemetery). Cemetery records should be retained at the parish office: never at someone's personal residence.

Diocese of Bismarck Financial Best Practices Guide

V. POLICIES.

A. Employee Policy and Procedure Manual: Parishes with employees must have an employee policy and procedure manual and must follow its instructions. At a minimum, this manual must: define parish work weeks, overtime policies, vacation and sick policies, holiday policies, general benefits provided by the parish, general expectations of employee work (work hours, dress codes, behavior at work, expected involvement in staff events, etc.), and general parish policies. This manual should be periodically reviewed and updated when appropriate. Sample manuals are available from the Diocese Parish Services Office.

B. Parish Finance Process Manual: Parishes should have a process manual outlining how specific processes are to be performed within their parish. This manual should provide walkthroughs of parish procedures for: (1) collection counting procedures, (2) updating parishioner contribution records, (3) guidelines on inputting transactions into the accounting software, (3) purchase/reimbursement approval procedures, (4) ministry schedules, etc. This manual should be periodically reviewed and updated when appropriate. Sample manuals are available from the Diocese Parish Service Office.

C. Emergency Preparedness Manual: Parishes must have a written policy concerning emergency preparedness. Along with this manual, parishes must provide emergency preparedness training to employees and key volunteers within the parish. This policy manual should provide instructions on what should be done if: (1) An armed intruder enters the church/school, (2) Fire or other related emergency, and (3) Natural disaster. This policy should be periodically reviewed and updated when appropriate. Sample manuals are available from the Diocese Parish Services Office.

D. Fixed Asset Policy: Parishes should have a written policy regarding the treatment of equipment and fixed assets. This policy must identify the individuals responsible for: (1) Tagging and monitoring all new and current equipment and fixed assets, (2) Approving the disposal of equipment and fixed assets, (3) Annually reviewing the insurance amounts of all equipment and fixed assets to determine if there is sufficient insurance coverage. This policy should be periodically reviewed and updated when appropriate. Sample manuals are available from the Diocese Parish Services Office.

E. Tuition Policy: Parishes that operate a school should have a written policy regarding the handling of tuition. This policy must identify the individuals responsible for: (1) Determining the price of tuition, (2) Billing tuition, (3) Collecting tuition (past-due and current), and (4) Recording tuition in the accounting records. This policy needs to require corporate board approval of the write-off of uncollectible tuition as well as contain policies regarding reduced tuition (scholarships, tuition forgiveness, etc.). As with other parish policies, this policy should be periodically reviewed and updated when appropriate.