ARCHDIOCESE OF OMAHA

PARISH ACCOUNTING MANUAL

ARCHDIOCESE of OMAHA

TABLE OF CONTENTS

--Liabilities--

*Accounts Payable

*Payroll Liabilities

*Accommodation Account

*Special Collections

*Long-Term Liabilities

--Equity--

INCOME STATEMENT *Pgs 69 - 85*

--Income--

*Detailed Definition & Recognition

*Unrestricted vs. Restricted Donations

*Transaction Level

-School Tuition & Fees

-School Income

-General Contributions

-Other Operating Revenue

-Activity & Entertainment Income

--Expenses--

*Detailed Definition & Recognition

*Reimbursable Expenses

*Transaction Level

-Personnel Costs

-Admin. Services & Supplies

-School Expenses

-Activity & Entertainment

-Other Expenses

PAYROLL *(NOT YET INCLUDED)*

*Payroll Accounting Basics

*Using QuickBooks to Process Payroll

*Accounting for Payroll Processed by an Outside Company

*Tax Reporting from QuickBooks

ADVANCED TOPICS *(NOT YET INCLUDED)*

*AP & AR – Common Mistakes & How to Correct

*Budgeting & Financial Reporting

*Endowment Accounting

*Fixed Assets - Tracking within QuickBooks

*Fund Accounting

*Memorized Transactions & Reports

*Statement of Cash Flows

*Tracking Donor Giving within QuickBooks

*Tuition Management

APPLICABLE DEFINITIONS *Pgs 86 - 93*

ARCHDIOCESE OF OMAHA
PARISH ACCOUNTING MANUAL

Purpose of this Manual

To formally establish and communicate a set of accounting standards to be used by all Archdiocesan parishes.

Advantages

The use of uniform accounting standards offers the following advantages to the Archdiocese of Omaha and its parishes:

1. Consistency of financial transactions to improve high-level reporting and allow for better comparative analysis.
2. Enhancement of parish business manager / bookkeeper knowledge of accounting and financial statements.
3. A readily available reference guide for how to record specific financial transactions.
4. Expansion of the Parish Business Administration Handbook by providing guidance on a transaction level.

Chancery Contact

Questions regarding the information within this manual should be directed to the Archdiocesan Accounting Manager or in his absence, an Archdiocesan Staff Accountant.

ACCOUNTING CHEAT SHEET

ACCOUNT TYPE	DEBITS & CREDITS		NORMAL BALANCE
Assets	Debit	To Increase	Debit
	Credit	To Decrease	
Liabilities	Debit	To Decrease	Credit
	Credit	To Increase	
Equity	Debit	To Decrease	Credit
	Credit	To Increase	
Revenue	Debit	To Decrease	Credit
	Credit	To Increase	
Expenses	Debit	To Increase	Debit
	Credit	To Decrease	

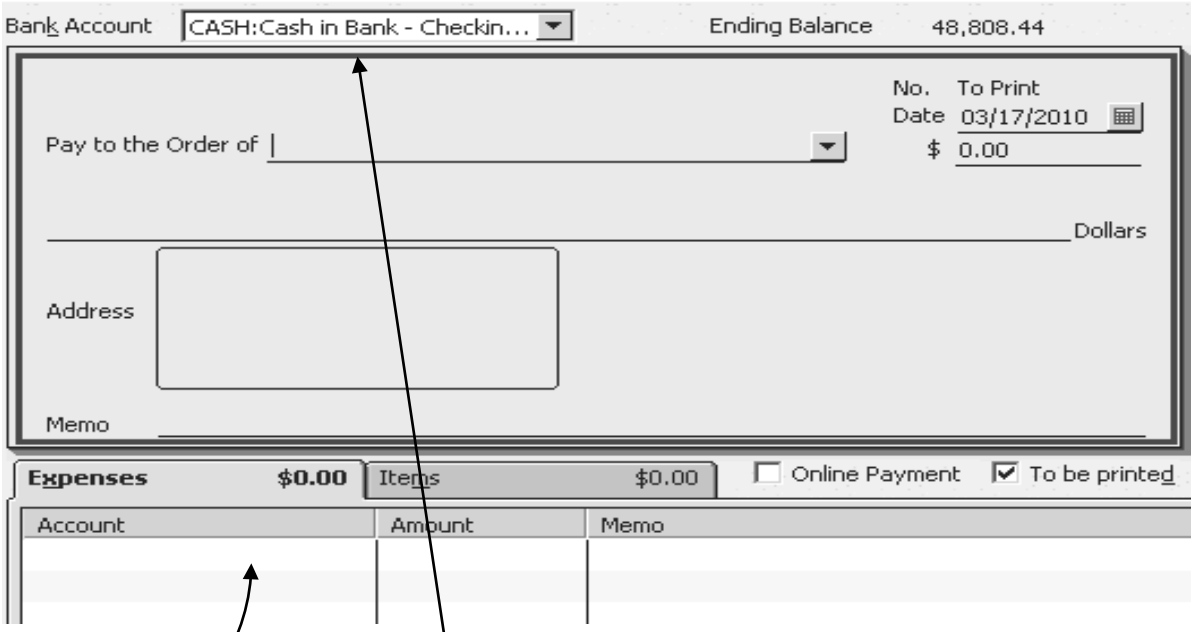
HOW DEBITS AND CREDITS WORK WITHIN QUICKBOOKS

QuickBooks accounting software is extremely user friendly and its basic functionality can be utilized by any given user, regardless of knowledge or past experience. Because of this methodology and design, a transaction can be recorded in QuickBooks without the user ever knowing what accounts are being debited and credited.

Double-entry bookkeeping is mandated upon the user by QuickBooks as all checks, deposits, transfers, bills, invoices, and journal entries require both sides of the debit-credit equation to balance. When recording any transaction type, QuickBooks will not allow the transaction to be saved unless the debits and credits equal each other.

To illustrate how debits and credits work within QuickBooks, a few transactions are illustrated below:

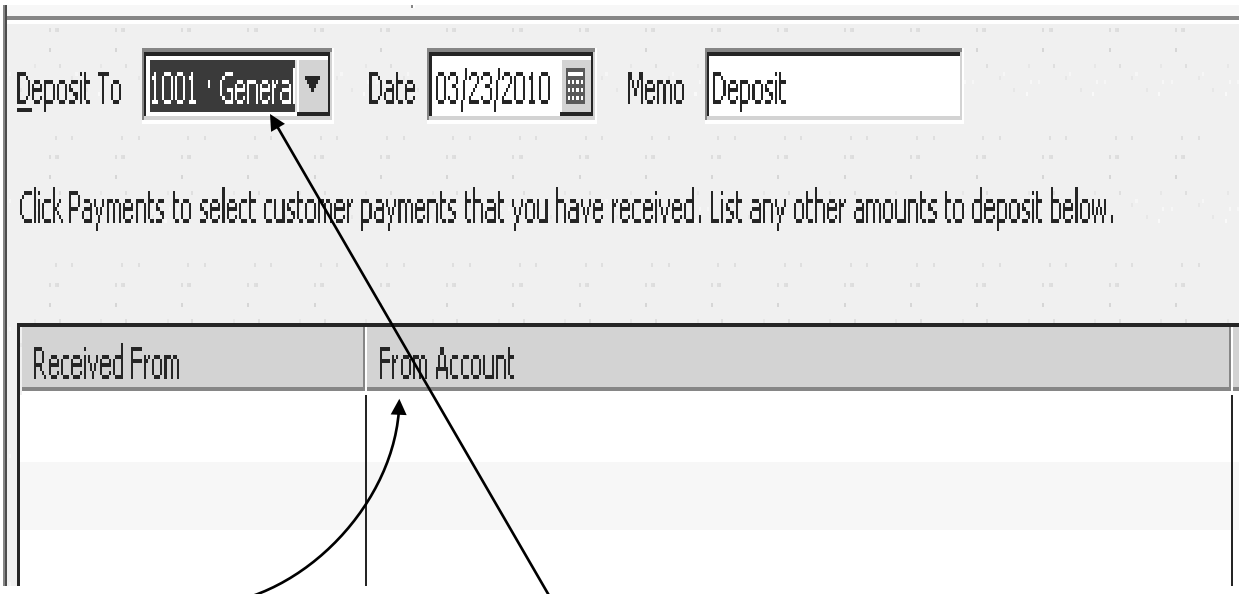
'Write Checks'



This account is being **credited**, as the bank account is decreased upon <u>writing a check</u>.

Even though the tab's heading is labeled 'Expenses,' any account type can be selected in this field (<u>it's labeled 'Expenses' because a majority of checks are written against an expense account</u>). A **debit** to an account can represent an increase or decrease (depending on the account type). Because the 'Expenses' section represents a **debit** (if the amount is positive), a negative amount on one of the lines would essentially reflect a **credit**.

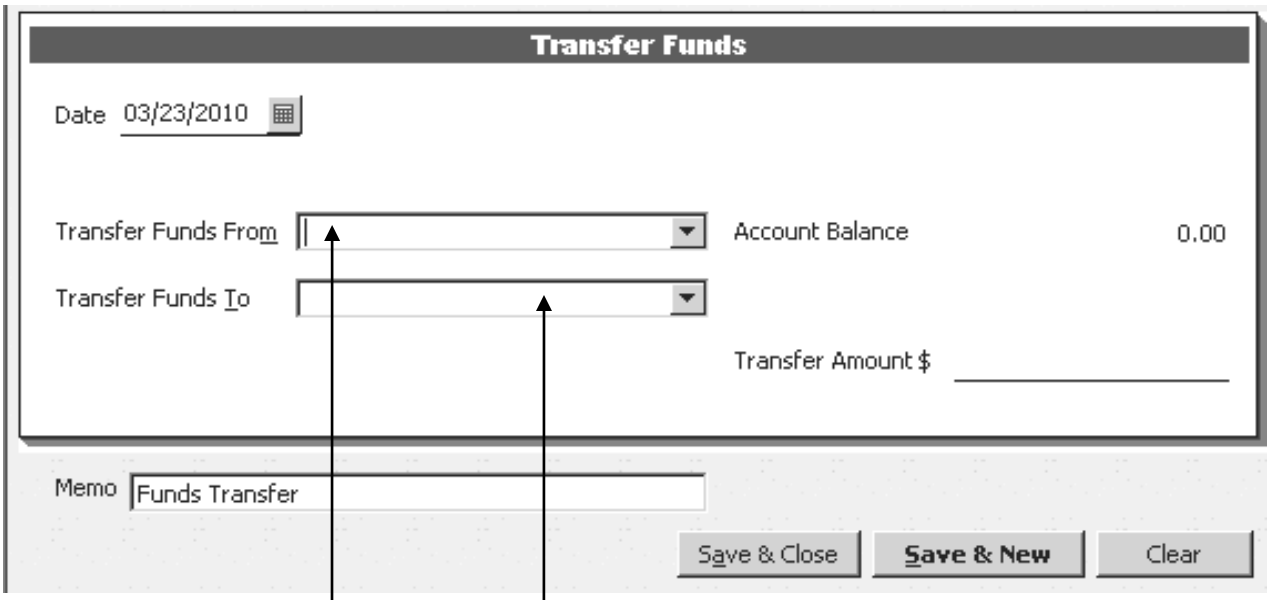
'Make Deposits'



This account is being **debited**, as the bank account is increased upon <u>making a deposit</u>.

Any account type can be selected under the 'From Account' heading and any positive amount is a **credit** to an account. If a negative account is entered on one of the lines, this would result in a **debit** to an account.

'Transfer Funds'



This account is being **credited.**

This account is being **debited**.

FINANCIAL STATEMENTS

The two most commonly utilized financial statements and the only two that are reported from the parishes to the Chancery are the balance sheet and income statement.

Balance Sheet:

The balance sheet, also referred to as the Statement of Financial Position, is a financial 'snap shot.' It represents the amount of assets and liabilities on a specified date and can be summarized by the following equation:

ASSETS = LIABILITIES + EQUITY

Assets are any owned tangible or intangible items having economic value. Examples include checking and savings accounts, petty cash, investments, equipment, furniture, and buildings.

Liabilities are debts or obligations owed to another entity. Examples include payroll withholdings, special collections, lines of credit, and external loans.

Equity represents the net of assets less liabilities, and is essentially the net worth of a parish life-to-date. A major aspect of equity is "retained earnings", which is an equity account in which the net profit (or loss) is transferred to at the end of the fiscal year from the income statement to the balance sheet.

Income Statement:

The income statement, also referred to as the Profit and Loss Statement, is a report of a parish's revenue and expenses over an amount of time. It displays how well a parish is performing financially and can be summarized by the following equation:

REVENUE – EXPENSES = NET INCOME

Revenue is income that directly benefits a parish. Examples include plate collections, donations, tuition, fundraising income, rental income, and interest/dividends.

Expenses are the costs incurred by a parish for its operations. Examples include personnel costs, utilities, office supplies, and maintenance.

The net income, or loss, is figured simply by subtracting the expenses from the revenue for a specified amount of time.

Relationship between the Balance Sheet & Income Statement:

Because the balance sheet and income statement are derived from the same underlying financial information, they relate closely to each other. The income statement and balance sheet of a parish are related through the net income for a period and the subsequent increase, or decrease, in equity that results.

Many transactions will affect both financial statements, so it is important for a bookkeeper and/or business manager to understand both reports and the relationship between them.

How They Can Help Your Organization:

Understanding what the balance sheet and income statement individually represent and how they relate is important, but it is crucial to be able to use these financial statements to measure financial success/failure and viability.

The balance sheet helps answer important questions regarding the amount of funds available to operate, the amount of savings available for a future project, the amount of tuition/fees outstanding, unpaid bills to vendors, and the balance of a loan or line of credit.

The income statement can be used to compare how the parish is actually performing over a time period versus what was projected (budgeted). Major discrepancies between projected revenue and/or expense accounts can be researched and the parish will be able to be proactive in dealing with any shortfall.

For both financial statements, comparative analysis is extremely important in using the information to its full potential. The balance sheet should be compared against prior ending month(s), quarter(s), and/or year(s) to analyze increases/decreases in asset and liability balances. The income statement should not only be compared against the budget, but should also be compared against prior month(s), quarter(s), and/or year(s) to analyze increases/decreases in revenue and expenses.

CASH BASIS OF ACCOUNTING

The Archdiocese of Omaha requires parishes to use the cash basis of accounting for financial reporting, as accounting is simplified and reporting emphasizes cash management.

What is the cash basis of accounting?

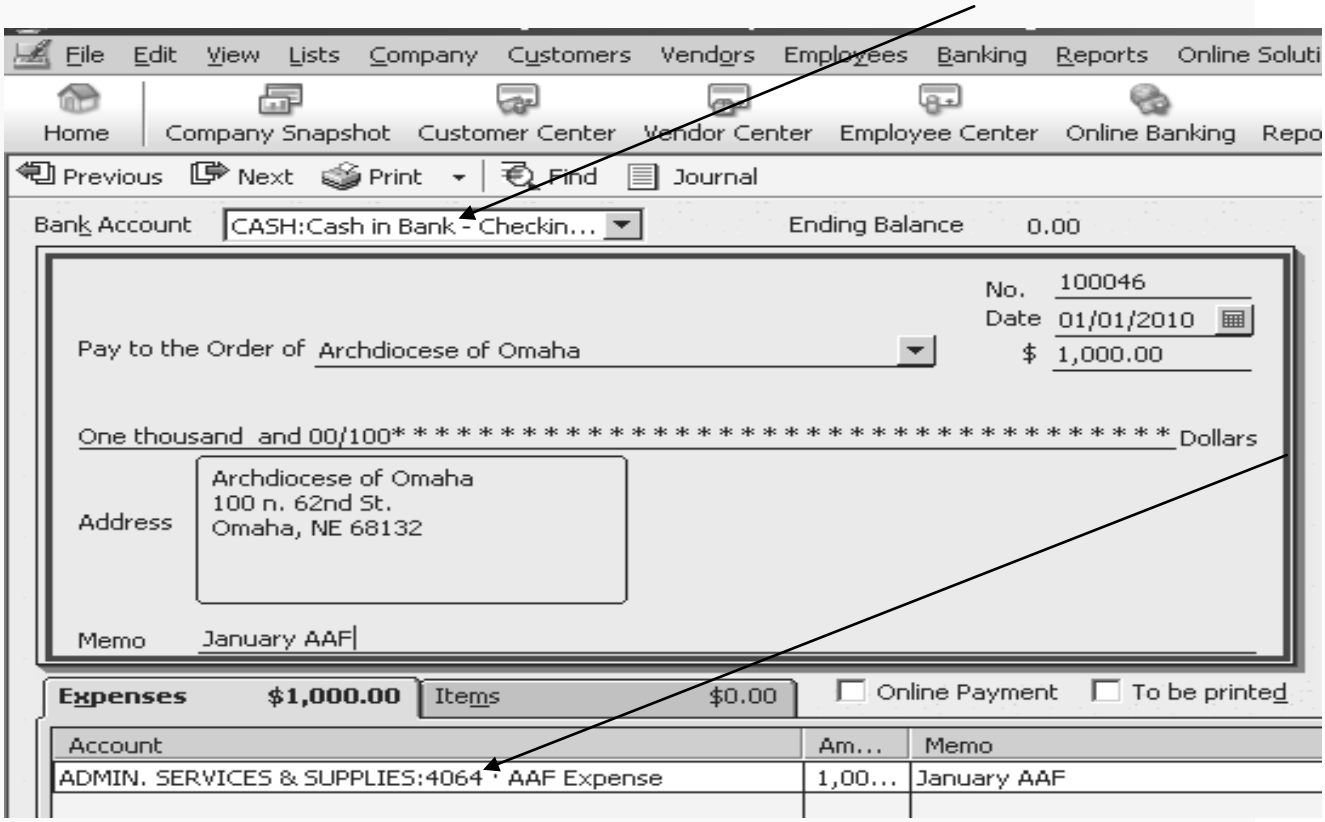
When operating on the cash basis, revenue is recorded when cash is received and expenses when cash is disbursed. This is in comparison to the accrual basis of accounting.

What is the accrual basis of accounting?

When operating on the accrual basis, revenue and expenses are recorded when incurred. This is accomplished primarily by using accounts payable and accounts receivable accounts.

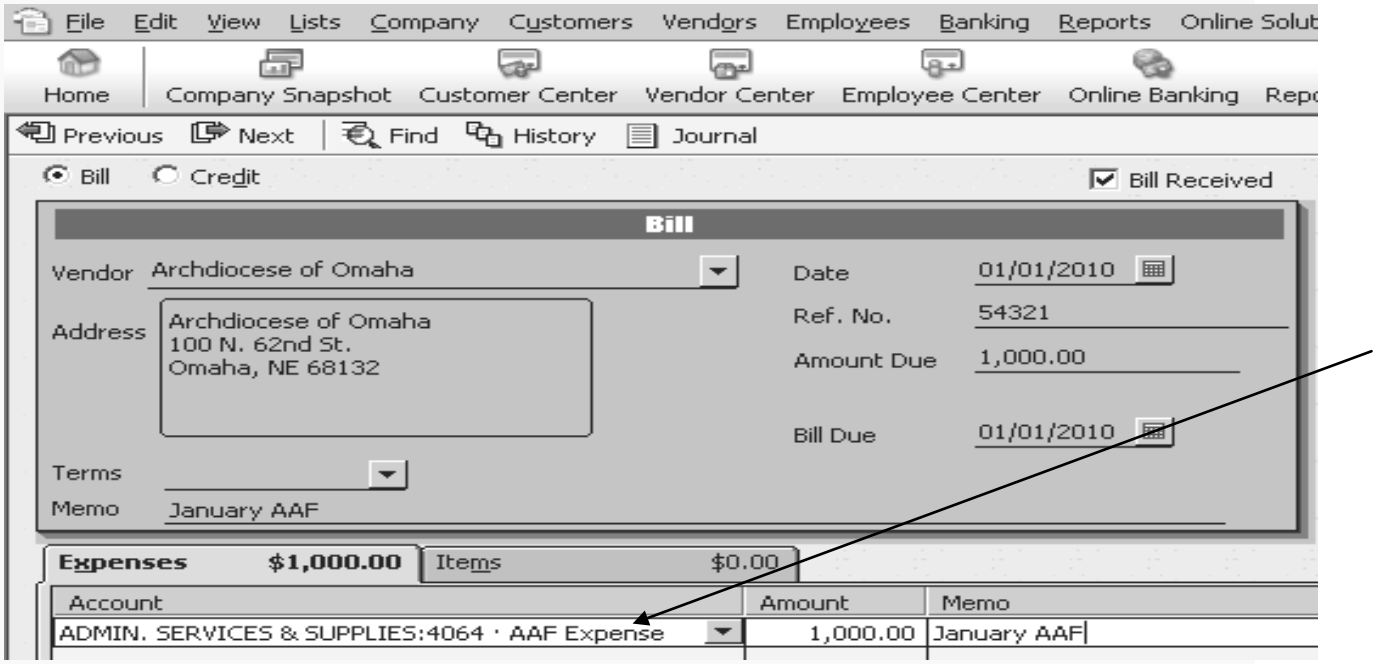
To illustrate:

When a purchase has been made, under the cash basis, the expense is recorded when the check is created in QuickBooks.



When this check is recorded, the selected bank account is credited (decreased) and the selected expense account is debited (increased). This single transaction is thus effecting both the balance sheet (asset is decreased) and the profit & loss statement (expense account is increased, thus reducing net income) by an equal but opposite amount.

When a purchase has been made, under the accrual basis, the expense is recorded when the vendor's invoice is created in QuickBooks.



When this accounts payable invoice is recorded, the accounts payable liability account is credited (as opposed to a cash account) when the expense is recorded. This single transaction also effects both the balance sheet (liability increased) and the profit & loss statement (expense account is increased) by an equal but opposite amount.

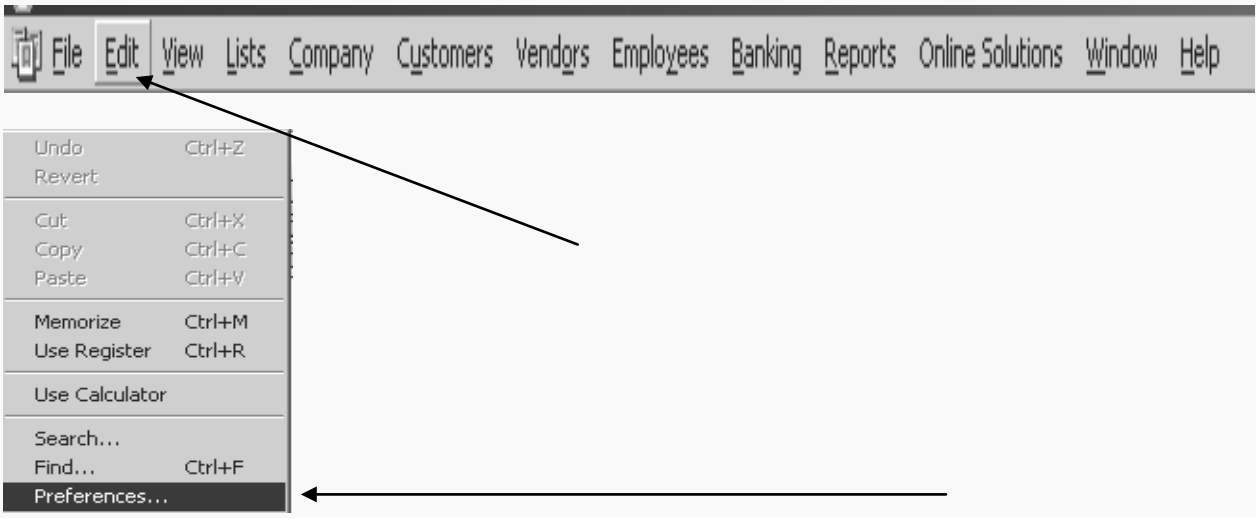
When this invoice is actually paid, the selected cash account will be credited and the accounts payable liability account will be debited (decreased). This particular transaction would only effect the balance sheet, as the expense was recorded when the invoice was created and this payment simply decreases a cash account while decreasing a liability.

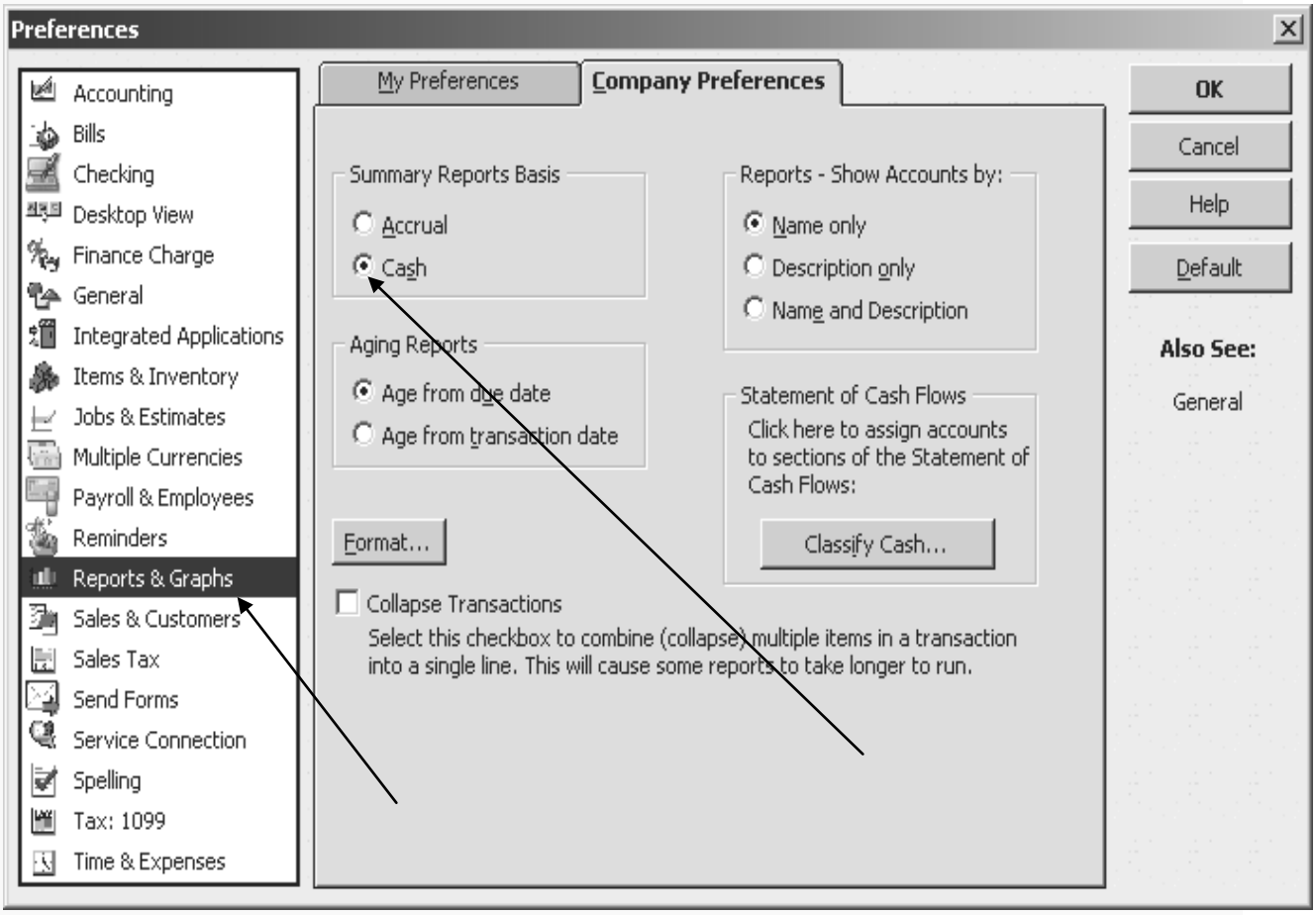
The above illustration involves a purchase, but the comparison can also be seen with the recording of revenue. Under the cash basis, tuition would be recorded when the payment (as part of a deposit) is recorded in QuickBooks. Under the accrual basis, the revenue would be recorded with the creation of an accounts receivable invoice for the customer (in this case, parent). The accounts receivable account is an asset on the balance sheet, and when tuition payments are received, they would be credited against the accounts receivable account (the asset is decreased) rather than a revenue account.

So, because parishes are required to report on the cash basis, does this mean you cannot utilize the accounts payable & accounts receivable functionality in QuickBooks?

No. Using this functionality may help manage and oversee future operations. <u>One of the greatest advantages of using QuickBooks is having the ability to instantly switch between the cash and accrual basis of accounting.</u> You may use the accounts payable & receivable functionalities and the Chancery Finance Office can still pull your financial information as cash-based reports. In order for this to work, the default 'Summary Reports Basis' must be set to 'cash.'

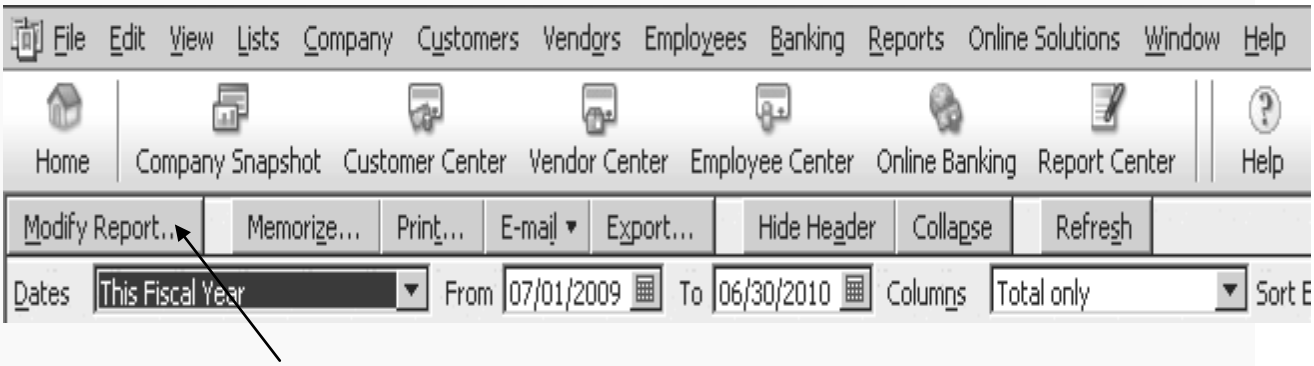
Required setting for all QuickBooks files:

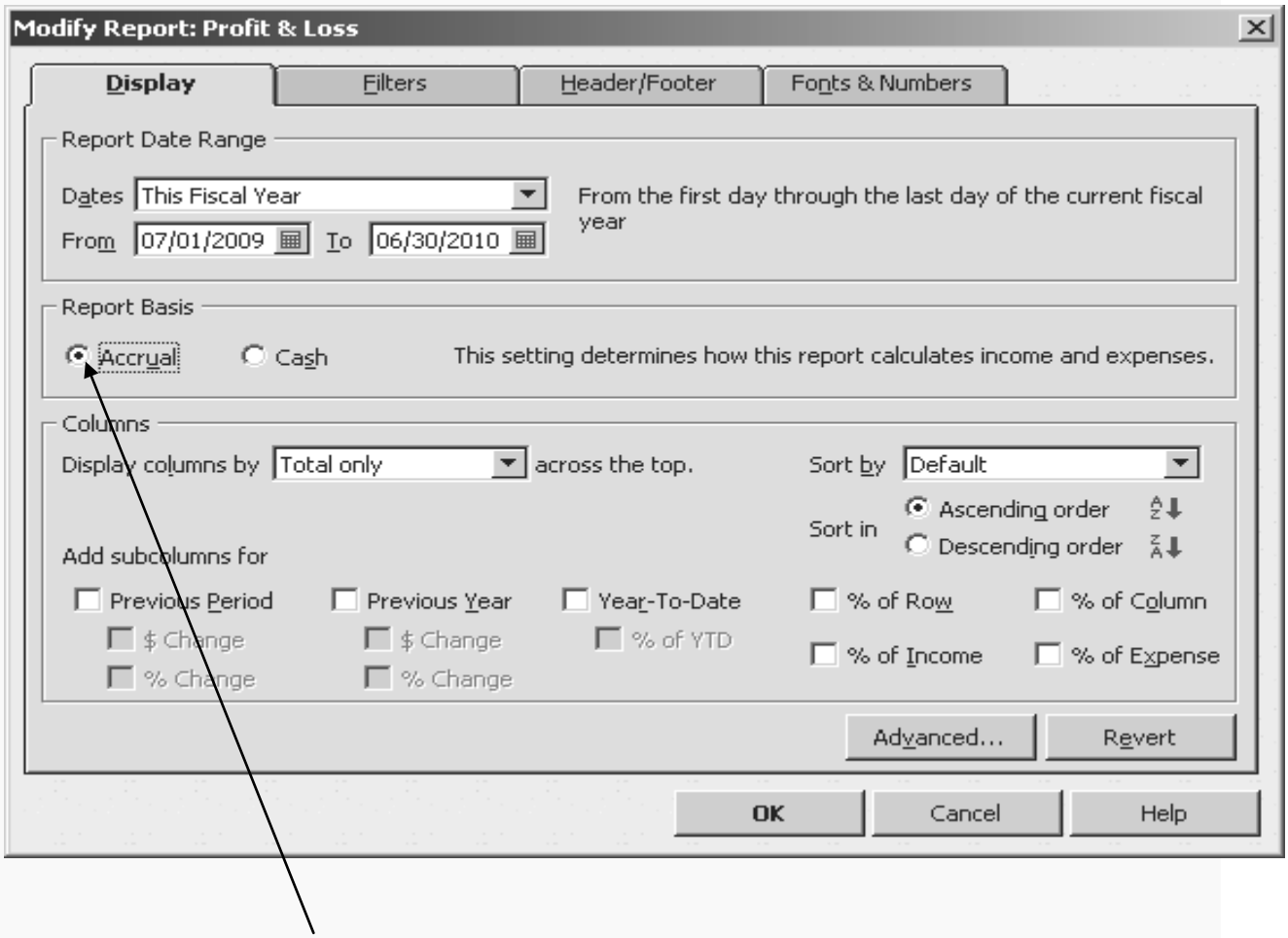




The required setting, shown above, is only the *default* reporting basis. This allows the Chancery to pull all parish financial information on a cash basis. If you do utilize the accounts payable & receivable functionality, producing reports on the accrual basis is simply 'a click away.'

Modifying a report to reflect accruals:





When the accounts payable & receivable functionalities are used, you can easily adjust any report to an accrual basis rather than cash basis.

*You can easily 'memorize' (save all modified settings) a report so that every time you bring it up, the accrual basis is selected for that saved report.

CHART OF ACCOUNTS & CLASS TRACKING

The chart of accounts contains five account types (assets, liabilities, equity, revenue, and expenses). Parishes must use the already-established accounts, but sub-accounts may be created and a majority of the accounts can be modified to be named something specific to the parish (see F1.2a in the Parish Business Administration Handbook).

Account Groupings:

All accounts available for use are grouped in QuickBooks underneath 'header' accounts. The header accounts should not be used directly when recording any transaction and the header account names *cannot* be modified in any way. (A color-coded chart of accounts follows this manual section and highlights both header accounts and transaction-level accounts that cannot be modified).

Sub-Accounts:

Sub-accounts can be added beneath already-established accounts for internal reporting/tracking purposes. To track income & expenses for major groups, projects, or events, it is strongly recommended that 'class tracking' be used within QuickBooks rather than creating numerous sub-accounts (see section below).

Sub-accounts may also be used for balance sheet accounts. One example is creating a sub-account under a liability account to clearly label a balance due to a particular outside group or organization. Also, a sub-account can be created underneath a bank account to further track earmarked funds within the account (detailed later in the Bank Accounts portion of the Balance Sheet section of this manual). This allows for the reduction in the number of actual bank accounts with the ability to track various funds internally (see Due Diligence in Financial Matters policy in the Parish Business Administration Handbook).

Class Tracking:

To go one step further in the use of accounts and internal reporting within QuickBooks, the software allows a 'class' to be assigned to any transaction to segregate major operating aspects of the parish. Assigning classes is for reporting purposes only within the income statement. An income statement can be modified to show one or many classes (and any report can be 'memorized' for ease of use), thus allowing for endless possibilities for internal reporting.

Classes, called 'programs' on the formal Archdiocesan chart of accounts (which is provided after the color-coded version following this section of the manual), have been established in the same way header accounts have. Within the established classes, you can add as many sub-classes as you need to satisfy your internal reporting requirements.

To minimize report modification frustrations, it is recommended that a sub-class be added for only regular activities and not for one-time events or projects. (For one-time events or projects, a simple memo in the transaction will allow you to find the given transactions at a later time.) Class tracking will be discussed further and will be displayed within illustrations in the Income Statement section of this manual.

PARISH CHART OF ACCOUNTS (FROM QUICKBOOKS)

	Acct Type
CASH	Bank
Cash in Bank - Checking	Bank
1001 . Checking #1	Bank
1002 . Checking #2	Bank
1003 . Checking #3	Bank
1004 . Checking #4	Bank
1005 . Checking #5	Bank
1006 . Checking #6	Bank
1007 . Checking #7	Bank
1008 . Checking #8	Bank
1009 . Checking #9	Bank
1010 . Checking #10	Bank
1011 . Petty Cash	Bank
Cash in Bank - Savings	Bank
1021 . Savings #1	Bank
1022 . Savings #2	Bank
1023 . Savings #3	Bank
1024 . Savings #4	Bank
1025 . Savings #5	Bank
1026 . Savings #6	Bank
1027 . Savings #7	Bank
1028 . Savings #8	Bank
1029 . Savings #9	Bank
1030 . Savings #10	Bank
1107 . SCRIP	Bank
PLANT & EQUIPMENT	Fixed Asset
1401 . Land	Fixed Asset
1411 . Buildings - Church	Fixed Asset
1412 . Buildings - Rectory	Fixed Asset
1413 . Buildings - Convent	Fixed Asset
1414 . Buildings - School	Fixed Asset
1416 . Buildings - Other	Fixed Asset
1420 . Church/Rectory Furnishings	Fixed Asset
1422 . Vehicles	Fixed Asset
1426 . School Furnishings and Contents	Fixed Asset
INVESTMENTS	Other Asset
1031 . Investments #1	Other Asset
1032 . Investments #2	Other Asset
1033 . Investments #3	Other Asset
1034 . Investments #4	Other Asset
1035 . Investments #5	Other Asset
1036 . Investments #6	Other Asset
1037 . Investments #7	Other Asset
1038 . Investments #8	Other Asset

1039 . Investments #9	Other Asset
1040 . Investments #10	Other Asset
D & L	Other Asset
1041 . D & L #1	Other Asset
1042 . D & L #2	Other Asset
1043 . D & L #3	Other Asset
1044 . D & L #4	Other Asset
1045 . D & L #5	Other Asset
1046 . D & L #6	Other Asset
1047 . D & L #7	Other Asset
1048 . D & L #8	Other Asset
1049 . D & L #9	Other Asset
1050 . D & L #10	Other Asset
Endowments	Other Asset
1051 . Endowment #1	Other Asset
1052 . Endowment #2	Other Asset
1053 . Endowment #3	Other Asset
1054 . Endowment #4	Other Asset
1055 . Endowment #5	Other Asset
1056 . Endowment #6	Other Asset
1057 . Endowment #7	Other Asset
1058 . Endowment #8	Other Asset
1059 . Endowment #9	Other Asset
1060 . Endowment #10	Other Asset
RECEIVABLES	Other Asset
1103 . Fees Receivable	Other Asset
1106 . Other Accounts Receivable	Other Asset
1109 . Interest Receivable	Other Asset
1110 . Notes & Loans Receivable	Other Asset
CURRENT LIABILITIES	Other Current Liability
2011 . Notes Payable	Other Current Liability
2075 . AAF Tax	Other Current Liability
2077 . Computer Charge	Other Current Liability
LIABILITIES - PAYROLL	Other Current Liability
2101 . Accrued Salary & Stipends	Other Current Liability
2102 . Payroll Taxes Payable - Other	Other Current Liability
2103 . Federal Income Taxes Payable	Other Current Liability
2104 . Employee W/H - Social Security	Other Current Liability
2105 . State Income Tax Payable	Other Current Liability
2106 . Employer's Share - Medicare	Other Current Liability
2107 . Employer's - Social Security	Other Current Liability
2108 . Employee W/H - Medicare	Other Current Liability
2109 . Employee W/H - Health Insurance	Other Current Liability
2110 . Employee W/H - Life Insurance	Other Current Liability
2111 . Employee W/H - Pension Fund	Other Current Liability
2112 . Employee W/H - Pension (Rel.)	Other Current Liability

2113 . Employee W/H - Sales Tax	Other Current Liability
2114 . Employee W/ H - Charity	Other Current Liability
2120 . Employee W/H - Other	Other Current Liability
ACCOMMODATION-ACCOUNTS PAYABLE	Other Current Liability
2180 . Accommodation Account	Other Current Liability
SPECIAL COLLECTIONS	Other Current Liability
2240 . Seminary	Other Current Liability
2241 . Home & Foreign Missions	Other Current Liability
2242 . Catholic Relief Services	Other Current Liability
2243 . Communications	Other Current Liability
2244 . Peter's Pence	Other Current Liability
2245 . World Mission Sunday (Prop.)	Other Current Liability
2246 . Campaign for Human Development	Other Current Liability
2247 . Mission Cooperation (Prop.)	Other Current Liability
2248 . Religious Pension Fund	Other Current Liability
2249 . Rice Bowl	Other Current Liability
2250 . Special "One-Time" Collections	Other Current Liability
2251 . Archdiocesan Dispensation Fees	Other Current Liability
2252 . St. Vincent de Paul Society	Other Current Liability
2253 . Archbishop's Campaign	Other Current Liability
2254 . Black and Indian Missions	Other Current Liability
CHANCERY PAYMENTS	Other Current Liability
2340 . Seminary	Other Current Liability
2341 . Home & Foreign Missions	Other Current Liability
2342 . Catholic Relief Services	Other Current Liability
2343 . Communications	Other Current Liability
2344 . Peter's Pence	Other Current Liability
2345 . World Mission Sunday (Prop.)	Other Current Liability
2346 . Campaign for Human Development	Other Current Liability
2347 . Mission Cooperation (Prop.)	Other Current Liability
2348 . Religious Pension Fund	Other Current Liability
2349 . Rice Bowl	Other Current Liability
2350 . Special "One-Time" Collections	Other Current Liability
2351 . Archdiocesan Dispensation Fees	Other Current Liability
2352 . St. Vincent de Paul Society	Other Current Liability
2353 . Archbishop's Campaign - Payment	Other Current Liability
2354 . Black and Indian Missions	Other Current Liability
LONG TERM LIABILITY	Long Term Liability
2301 . Notes & Loans Payable #1	Long Term Liability
2302 . Notes & Loans Payable #2	Long Term Liability
2303 . Notes & Loans Payable #3	Long Term Liability
2304 . Due to D&L Fund Loan	Long Term Liability
2501 . Equity From Operations	Equity
2502 . Plant Fund	Equity
2503 . Endowment Fund	Equity

Attachment A

3000 . Opening Bal Equity	Equity
SCHOOL TUITION & FEES	Income
3001 . Tuition From Parents	Income
3002 . Tuition From Scholarship	Income
3003 . Tuition - CCD	Income
3004 . Tuition - Adult Education	Income
3005 . Tuition - Summer Term	Income
3006 . Tuition - Special Programs	Income
3007 . Tuition - Past Due	Income
3008 . Book Revenue	Income
3009 . Subsidies	Income
3010 . Fees - Non Designated & Fines	Income
3011 . Fees - Registration	Income
3012 . Fees - Graduation	Income
3013 . Fees - Special Subject	Income
3016 . Fees - Athletic	Income
3017 . Fees - Locker & Key	Income
3018 . Fees - Other (Activity)	Income
3019 . Children's Scholarship Fund	Income
GOVERNMENTAL SOURCES	Income
3021 . Lunch Program	Income
3022 . ESEA Title I	Income
3024 . Other	Income
GENERAL CONTRIBUTIONS	Income
3030 . Sunday Collections - Envelopes	Income
3031 . Sunday Collection - Cash & Coin	Income
3032 . Christmas	Income
3033 . Easter	Income
3034 . Collections - Holy Days	Income
3036 . Votive Lights, Etc.	Income
3037 . Debt Retirement	Income
3038 . Capital Campaigns	Income
3039 . Children	Income
3040 . Capital Improvements	Income
3060 . Fuel	Income
3061 . Maintenance & Repairs	Income
3062 . New Organ	Income
3064 . New Roof	Income
3065 . Special Liturgies	Income
3066 . Memorials	Income
3067 . Miscellaneous	Income
3068 . Scholarships	Income
3069 . Insurance	Income
3070 . Church Bookstore Revenue	Income
SCHOOL INCOME	Income

3122 . Sale of Supplies	Income
3123 . Rental of Books	Income
3124 . Other Bookstore Revenue	Income
3125 . Sale of School Publication	Income
3131 . Admission Fees	Income
3135 . Special Activity Revenue	Income
3136 . Transportation Revenues	Income
3141 . Sale of Student Lunches	Income
3142 . Sale of Adult Lunches	Income
3144 . Community Reimb. - Food Service	Income
3145 . Other Food Service Revenue	Income
3150 . Miscellaneous	Income
3228 . Pre-School	Income
3229 . Fees	Income
ACTIVITY & ENTERTAINMENT INCOME	Income
3249 . Special Fund Raising Events	Income
3250 . Special Events Non-Fundraising	Income
3251 . Club and Group Fees and Dues	Income
3252 . Admission Fees	Income
3253 . Group Special Activity Fees	Income
3254 . Group Fundraisers	Income
3257 . BINGO Revenue	Income
3258 . Pickle Revenue	Income
3259 . SCRIP	Income
OTHER OPERATING REVENUE	Income
3080 . Endowments (Non Education)	Income
3081 . Bequests, Wills, Ins. Proceeds	Income
3082 . D & L Interest Income (Arch.)	Income
3084 . Rentals	Income
3085 . Interest & Dividends	Income
3086 . Bulletin Ads	Income
3087 . Contributions - Groups & Clubs	Income
3088 . Refund & Rebate	Income
3089 . Educational Endowment	Income
3171 . Contributions From Community	Income
3191 . Insurance Proceeds / Recoveries	Income
3192 . Realized G/L on Investment	Income
3193 . Gain/Loss on Sale Assets	Income
3222 . Capital Campaign Rebate	Income
3223 . Educational Campaign Rebate	Income
3306 . Archdiocese Grants & Subsidies	Income
3601 . Interest Income - Endowments	Income
3602 . Interest Income - Ed. Endowment	Income
3900 . Credit Card Revenue	Income
OTHER OPERATING INCOME	Income
3500 . Farm Rental	Income

3510 . Farm Operation	Income
3520 . Building Rental	Income
3530 . Cemetery	Income
RELIGIOUS PERSONNEL COSTS	Expense
4001 . Priests' Salaries	Expense
4002 . Religious Men's Salaries	Expense
4003 . Religious Women's Salaries	Expense
4020 . Other Benefits	Expense
4022 . Retirement - Pension	Expense
4023 . Insurance	Expense
4024 . Clergy Gifts	Expense
4025 . Clergy Meetings	Expense
4216 . Seminarian	Expense
LAY PERSONNEL COSTS	Expense
4010 . Salaries	Expense
4011 . Student Labor	Expense
4012 . Cafeteria	Expense
4013 . Vacation Payout	Expense
4015 . Meetings	Expense
4019 . Other Benefits	Expense
4030 . Medicare Taxes	Expense
4031 . FICA Taxes	Expense
4032 . Retirement Plan	Expense
4033 . Insurance	Expense
4034 . Temporary Help	Expense
4035 . Unemployment Insurance	Expense
ADMIN. SERVICES & SUPPLIES	Expense
4040 . Fuel, Natural Gas, Oil	Expense
4041 . Electric, Power	Expense
4042 . Water & Sewer Use	Expense
4043 . Telephone	Expense
4044 . Equipment	Expense
4045 . Rental	Expense
4046 . Computer Charge	Expense
4047 . Printing / Copying	Expense
4048 . Postage	Expense
4049 . Advertising	Expense
4050 . Office Supplies	Expense
4051 . Instructional Supplies	Expense
4052 . Plant Supplies	Expense
4053 . Administrative	Expense
4054 . Student Activity Supplies	Expense
4055 . Liturgy Supplies	Expense
4056 . Rectory Supplies	Expense
4057 . Dietary Supplies	Expense
4058 . Automotive	Expense

4059 . Furniture & Equipment	Expense
4060 . Maintenance & Repairs	Expense
4062 . Special School Assessments	Expense
4063 . School Tuition	Expense
4064 . AAF Expense	Expense
4065 . Fund Drive	Expense
4066 . Deposit & Loan Interest	Expense
4070 . Service Contracts	Expense
4071 . Property Insurance	Expense
4072 . Subscriptions	Expense
4073 . Travel	Expense
4074 . Donations	Expense
4075 . Interest	Expense
4078 . Taxes & Licenses	Expense
4080 . Donations - Poor	Expense
4081 . Professional Fees	Expense
4082 . Church Envelopes	Expense
4083 . Computer	Expense
4084 . Marriage Case	Expense
4085 . Marriage Preparation	Expense
4086 . Miscellaneous	Expense
SCHOOL EXPENSES	Expense
4187 . Bookstore	Expense
4186 . Publications	Expense
4188 . Student Clubs	Expense
4096 . Scholarships	Expense
4097 . Student Aid	Expense
4180 . Miscellaneous	Expense
4181 . Transportation	Expense
4182 . Cafeteria	Expense
4184 . Athletics	Expense
4185 . Band	Expense
4189 . Alumni	Expense
ACTIVITY & ENTERTAINMENT	Expense
4249 . Special Fund Raising Events	Expense
4250 . Special Events Non-Fund Raising	Expense
4251 . Club and Group Expenses	Expense
4257 . Bingo	Expense
4258 . Pickles	Expense
4259 . SCRIP	Expense
OTHER OPERATION EXPENSES	Expense
4500 . Farm Rental	Expense
4501 . Farm Operation	Expense
4502 . Building Rental	Expense
4530 . Cemetery	Expense
4999 . Capital Outlay	Expense

3194 . Unrealized G/L on Investments	Other Income
3195 . Unrealized G/L on Endowments	Other Income

	Required 'Header' Accounts (account names must be exact)
	Required account names (must be exact)

Effective July 1, 2013

ARCHDIOCESE OF OMAHA
PARISH ACCOUNTING
CHART OF ACCOUNTS

PROGRAM #	PROGRAM NAMES
0	Balance Sheet
1	Secondary Education
2	Elementary Education
3	Religious Education
4	Parish Program
5	Other
6	Day Care
7	Clubs and Groups

BALANCE SHEET ACCOUNTS

ASSET ACCOUNTS

ACCT #	CURRENT ASSETS	EXPLANATION	PROGRAM #
1001-1010	Cash in Bank - Checking		0
1011	Petty Cash		0
1021-1030	Cash in Bank - Savings		0
1031-1040	Investments	Money markets, CD's, & mutual funds	0
1041-1050	Deposit & Loan Fund Investments	Parish investments in the Deposit and Loan Fund	0
1051-1060	Endowments	School, parish, & cemetery endowments, etc.	0
1103	Fees Receivable		0
1106	Other Accounts Receivable		0
1107	SCRIP		0
1109	Interest Receivable		0
1110	Notes & Loans Receivable		0

ACCT #	PLANT & EQUIPMENT	EXPLANATION	PROGRAM #
1401	Land		0
1411	Buildings - Church		0
1412	Buildings - Rectory		0
1413	Buildings - Convent		0
1414	Buildings - School		0
1416	Buildings - Other		0
1420	Church/Rectory Furnishings		0
1422	Vehicles		0
1426	School Furnishings and Contents		0

LIABILITY & EQUITY ACCOUNTS

ACCT #	CURRENT LIABILITIES	EXPLANATION	PROGRAM #
2011	Notes Payable	Lines of credit/loans with maturity of one year or less	0

ACCT #	LIABILITIES - PAYROLL	EXPLANATION	PROGRAM #
2101	Accrued Salary & Stipend Payable		0
2102	Payroll Taxes Payable - Other		0
2103	Federal Income Tax Payable		0
2104	Employee Withholding Payable - Social Security	Social Security portion withheld	0
2105	State Income Tax Payable		0
2106	Employer's Share - Medicare		0
2107	Employer's Share - Social Security		0
2108	Employee Withholding Payable - Medicare	Medicare portion withheld	0
2109	Employee Withholding Payable - Health Insurance		0
2110	Employee Withholding Payable - Life Insurance		0
2111	Employee Withholding Payable - Pension Fund		0
2112	Employee Withholding Payable - Religious Pension Fund		0
2113	Employee Withholding Payable - Sales Tax Payable		0
2114	Employee Withholding Payable - Charity Pledges		0
2120	Employee Withholding Payable - Other		0

ACCT #	ACCOMMODATION-ACCOUNTS PAYABLE	EXPLANATION	PROGRAM #
2180	Accommodation Account	Money collected, held and distributed by the	0
		parish but not recorded to the parish. (Funds	
		must not directly benefit the parish)	

ACCT #	SPECIAL COLLECTIONS *	EXPLANATION	PROGRAM #
2240	Seminary	See Business Administration Handbook F2.2a-F2.2b	0
2241	Home & Foreign Missions	See Business Administration Handbook F2.2a-F2.2b	0
2242	Catholic Relief Services	See Business Administration Handbook F2.2a-F2.2b	0
2243	Communications	See Business Administration Handbook F2.2a-F2.2b	0
2244	Peter's Pence	See Business Administration Handbook F2.2a-F2.2b	0
2245	World Mission Sunday (Prop.)	See Business Administration Handbook F2.2a-F2.2b	0
2246	Campaign for Human Development	See Business Administration Handbook F2.2a-F2.2b	0
2247	Mission Cooperation (Prop.)	See Business Administration Handbook F2.2a-F2.2b	0
2248	Religious Pension Fund	See Business Administration Handbook F2.2a-F2.2b	0
2249	Rice Bowl	See Business Administration Handbook F2.2a-F2.2b	0
2250	Special "One-Time" Collections	See Business Administration Handbook F2.2a-F2.2b	0
2251	Archdiocesan Dispensation Fees	See Business Administration Handbook F2.2a-F2.2b	0
2252	St. Vincent de Paul Society	See Business Administration Handbook F2.2a-F2.2b	0
2253	Archbishop's Campaign	See Business Administration Handbook F2.2a-F2.2b	0
2254	Black and Indian Missions	See Business Administration Handbook F2.2a-F2.2b	0

* Moneys collected at the direction of the Holy SEE, USCCB, or Archdiocese of Omaha. These funds are NOT for parish or school operating expenses and are NOT recorded as revenue.

Attachment B

ACCT #	CHANCERY PAYMENTS	EXPLANATION	PROGRAM #
2340	Seminary	See Business Administration Handbook F2.2a-F2.2b	0
2341	Home & Foreign Missions	See Business Administration Handbook F2.2a-F2.2b	0
2342	Catholic Relief Services	See Business Administration Handbook F2.2a-F2.2b	0
2343	Communications	See Business Administration Handbook F2.2a-F2.2b	0
2344	Peter's Pence	See Business Administration Handbook F2.2a-F2.2b	0
2345	World Mission Sunday (Prop.)	See Business Administration Handbook F2.2a-F2.2b	0
2346	Campaign for Human Development	See Business Administration Handbook F2.2a-F2.2b	0
2347	Mission Cooperation (Prop.)	See Business Administration Handbook F2.2a-F2.2b	0
2348	Religious Pension Fund	See Business Administration Handbook F2.2a-F2.2b	0
2349	Rice Bowl	See Business Administration Handbook F2.2a-F2.2b	0
2350	Special "One-Time" Collections	See Business Administration Handbook F2.2a-F2.2b	0
2351	Archdiocesan Dispensation Fees	See Business Administration Handbook F2.2a-F2.2b	0
2352	St. Vincent de Paul Society	See Business Administration Handbook F2.2a-F2.2b	0
2353	Archbishop's Campaign - Payment	See Business Administration Handbook F2.2a-F2.2b	0
2354	Black and Indian Missions	See Business Administration Handbook F2.2a-F2.2b	0

ACCT #	LONG TERM LIABILITY	EXPLANATION	PROGRAM #
2301-2303	Notes & Loans Payable		0
2304	Due to D&L Fund Loan	Repayment of D&L loan principal	0

ACCT #	EQUITY	EXPLANATION	PROGRAM #
2501	Equity from Operations	Retained Earnings	0
2502	Plant Fund	Property, Plant & Equipment Adjustments	0
2503	Endowment Fund	Add Endowments; Endowment Retained Earnings	0
3000	Opening Balance Equity	Add Bank/Investment Accounts	0

REVENUE ACCOUNTS

ACCT #	SCHOOL TUITION & FEES*	EXPLANATION	PROGRAM #
3001	Tuition From Parents	Tuition received from parents	1 , 2 , 6 - 7
3002	Tuition From Scholarship	Non-CSF Scholarship received for an individual student's tuition	1 , 2 , 6 - 7
3003	Tuition - CCD	Religious education fees	3
3004	Tuition - Adult Education	Adult classes	1 , 2 , 6 - 7
3005	Tuition - Summer Term	Summer school fee	1 , 2 , 6 - 7
3006	Tuition - Special Programs	Program fees not included in regular tuition	1 , 2 , 6 - 7
3007	Tuition - Past Due	Tuition outstanding prior to current fiscal year	1 , 2 , 6 - 7
3007b	Tuition - Prepaid	Tuition paid for upcoming year	1 , 2 , 6 - 7
3008	Book Revenue	Sale or rental of books	1 , 2 , 6 - 7
3009	Subsidies **	Parish-funded subsidies	1 , 2 , 6 - 7
3010	Fees - Non Designated & Fines	Misc. fees and student fines	1 - 3 , 5 , 6
3011	Fees - Registration	Student registration fees	1 - 3 , 5 , 6
3011b	Prepaid Fees - Registration	Student registration fees paid for upcoming year	1 - 3 , 5 , 6
3012	Fees - Graduation	Cap, gown, diplomas, etc.	1 , 2 , 6
3013	Fees - Special Subject	Classes requiring special fees	1 - 3 , 5 , 6
3016	Fees - Athletic	Sporting events or practice fees	1 - 3 , 5
3017	Fees - Locker & Key	Locker & key	1 , 2
3018	Fees - Other (Activity)	Misc. school activity fees	1 - 3 , 5
3019	Children's Scholarship Fund	CSF payments	1 , 2

* Tuition and fees specifically for school operating expenses.

** Parish funded subsidies received by a school which are NOT student specific.

ACCT #	SCHOOL INCOME	EXPLANATION	PROGRAM #
3122	Sale of Supplies		1 - 3 , 5 , 6
3123	Rental of Books		1 - 3 , 5
3124	Other Bookstore Revenue		1 , 2 , 6
3125	Sale of School Publication		1 - 3 , 5
3131	Admission Fees		1 - 3 , 5 , 6
3135	Special Activity Revenue		1 - 3 , 5 , 6
3136	Transportation Revenue		1 - 3 , 5 , 6
3141	Sale of Student Lunches		1 , 2 , 6
3142	Sale of Adult Lunches		1 , 2
3144	Community Reimbursement - Food Service		1 , 2 , 6
3145	Other Food Service Revenue		1 - 3 , 5 , 6
3150	Miscellaneous		1 - 3 , 5 , 6
3228	Pre-School		2 - 4 , 6
3229	Fees	Example: Day Care Fees	2 - 4 , 6

ACCT #	GOVERNMENTAL SOURCES	EXPLANATION	PROGRAM #
3021	Lunch Program		1 , 2 , 6
3022	ESEA Title I		1 , 2
3024	Other		1 , 2 , 6

Attachment B

ACCT #	GENERAL CONTRIBUTIONS	EXPLANATION	PROGRAM #
3030	Sunday Collections - Envelopes		4
3031	Sunday Collection - Cash & Coin		4
3032	Christmas		4
3033	Easter		4
3034	Collections - Holy Days		4
3036	Votive Lights, Etc.		4
3037	Debt Retirement	Repayment of loans / lines of credit	1 - 2, 4
3038	Capital Campaigns	Formal parish capital campaigns only	4
3039	Children		4
3040	Capital Improvements	Building projects and renovations	1 - 2, 4
3060	Fuel	Heating oil and gas collections	1 - 2, 4
3061	Maintenance & Repairs	General repairs of the parish / school campus	1 - 2, 4
3062	New Organ		4
3064	New Roof		1 - 2, 4
3065	Special Liturgies		4
3066	Memorials		4
3067	Miscellaneous		1 - 7
3068	Scholarships	Donations received to grant scholarships (not student specific)	1 - 5
3069	Insurance		4
3070	Church Bookstore Revenue	Parish bookstore (sales unrelated to school)	4

ACCT #	OTHER OPERATING REVENUE	EXPLANATION	PROGRAM #
3080	Endowments (Non Education)	Principal additions	4
3081	Bequests, Wills, & Estates		2 , 4
3082	D & L Interest Income (Arch.)		1 - 4
3083	Stole Fees	Stole fees if retained by parish	4
3084	Rentals	Revenue from social events and rental income	1 , 2 , 4
3085	Interest & Dividends	Interest on checking, savings, and other investments	1 - 5
3086	Bulletin Ads		1 - 7
3087	Contributions - Groups & Clubs		1 - 7
3088	Refunds & Rebates		2 - 4
3089	Educational Endowment	Principal additions	1 - 4
3171	Contributions From Community	Funds received from organizations outside the parish	1 - 7
3191	Insurance Proceeds / Recoveries		1 - 7
3192	Realized G/L on Investment	Gain or loss on sale of investments	1 - 7
3193	Gain/Loss on Sale of Assets	Gain or loss on sale of non investment assets	1 - 7
3216	Seminarian		1 - 7
3222	Capital Campaign Rebate		4 , 5
3223	Educational Campaign Rebate		1 - 4
3306	Archdiocese Grants & Subsidies		1 , 2 , 4 , 5
3601	Interest Income - Endowments		4
3602	Interest Income - Ed. Endowment		1 - 3
3900	Credit Card Revenue		2 , 4

Attachment B

ACCT #	ACTIVITY & ENTERTAINMENT INCOME	EXPLANATION	PROGRAM #
3249	Special Fund Raising Events	Bazaars and festivals	1 - 7
3250	Special Events Non Fundraising	Parish activities, parish dinners, and funeral dinners	1 - 7
3251	Club and Group Fees and Dues	Any fee required for group/club membership	1 - 7
3252	Admission Fees		4
3253	Group Special Activity Fees		1 - 7
3254	Group Fundraisers	Bake sales, calendars, etc.	7
3257	Bingo Revenue		1 - 7
3258	Pickle Revenue		1 - 7
3259	SCRIP Revenue	Difference between SCRIP cost and face value	1 - 7

ACCT #	OTHER OPERATING INCOME	EXPLANATION	PROGRAM #
3500	Farm Rental		4
3510	Farm Operation		4
3520	Building Rental		4
3530	Cemetery		4

EXPENSE ACCOUNTS

ACCT #	RELIGIOUS PERSONNEL COSTS	EXPLANATION	PROGRAM #
4001	Priests' Salaries		1 - 7
4002	Religious Men's Salaries		1 - 7
4003	Religious Women's Salaries		1 - 7
4020	Other Benefits	Life insurance, disability insurance, etc.	1 - 7
4022	Retirement - Pension	Retirement - employer contributions	1 - 7
4023	Insurance	Health care premiums	1 - 7
4024	Clergy Stipends	Supply priests; Confirmation stipends	1 - 7
4025	Clergy Meetings	Retreats, conferences & seminar	1 - 7
4216	Seminarian		1 - 7

ACCT #	LAY PERSONNEL COSTS	EXPLANATION	PROGRAM #
4010	Salaries	Lay employees	1 - 7
4011	Student Labor	Student help, summer youth programs	1 - 7
4012	Cafeteria	Hot lunch program personnel	1 , 2 , 6
4013	Vacation Payout		1 - 7
4015	Meetings	Retreats, conferences, seminar registration	1 - 7
4019	Other Benefits	Life insurance, disability insurance, etc.	1 - 7
4030	Medicare Taxes	Employer's share	1 - 7
4031	Social Security Taxes	Employer's share	1 - 7
4032	Retirement Plan	Retirement - employer contributions	1 - 7
4033	Insurance	Health & dental insurance premiums	1 - 7
4034	Temporary Help	Temporary / seasonal help	1 - 7
4035	Workers' Compensation		1 - 7

Attachment B

ACCT #	ADMIN. SERVICES & SUPPLIES	EXPLANATION	PROGRAM #
4040	Fuel, Natural Gas, Oil		1 - 7
4041	Electric, Power		1 - 7
4042	Water & Sewer Use		1 - 7
4043	Telephone		1 - 7
4044	Maintenance & Repairs - Equipment	Maintenance & repairs of equipment	1 - 7
4045	Rental		1 - 7
4047	Printing / Copying		1 - 7
4048	Postage		1 - 7
4049	Advertising		1 - 7
4050	Office Supplies		1 - 7
4051	Instructional Supplies		1 - 7
4052	Plant Supplies		1 - 7
4053	Administrative	Bank charges, deposit box rental, etc.	1 - 7
4054	Student Activity Supplies	Student related materials & supplies	1 - 7
4055	Liturgy Supplies	Liturgical & religious supplies, missalettes	1 - 7
4056	Rectory Supplies	Rectory & convent supplies	1 - 7
4057	Dietary Supplies	Meals, groceries & dietary supplies	1 - 7
4058	Automotive	Gas, oil, tax, etc.	1 - 7
4059	Furniture & Equipment	Office & rectory furnishings	1 - 7
4060	Maintenance & Repairs - Building	Custodial maintenance & repairs	1 - 7
4062	School Assessments	All school assessments	1 - 7
4063	School Tuition	Tuition Assistance	1 - 7
4064	**AAF Expense**		4
4065	Fund Drive	Expenses related to fund drives	1 - 7
4066	Deposit & Loan Interest	Interest paid on archdiocese D&L Loan	1 - 4
4070	Service Contracts	Office & other equipment contracts	1 - 7
4071	Insurance (Catholic Mutual)	Property, crime, event, etc... insurance	1 - 7
4072	Subscriptions	Subscriptions, membership dues	1 - 7
4073	Travel	Cost of out-of-city travel, air, mileage, meals	1 - 7
4074	Donations		1 - 7
4075	Interest	Interest expense (paid to other than Arch.)	1 - 4 , 6
4078	Taxes & Licenses	Taxes, licenses, permits (NOT auto)	1 - 7
4080	Donations - Poor	Donations to institutions serving the poor	1 - 7
4081	Professional Fees	Attorney, CPA, bookkeeping service fees	1 - 7
4082	Church Envelopes	Sunday envelopes, holy day, charity	1 - 7
4083	Computer		1 - 7
4084	Marriage Case	Marriage annulment	4
4085	Marriage Preparation		4
4086	Miscellaneous	Unspecified expenses	1 - 7

Attachment B

ACCT #	SCHOOL EXPENSES	EXPLANATION	PROGRAM #
4096	Scholarships	Student scholarships (not based on financial need)	1 - 7
4097	Student Aid	Grants (based on financial need)	1 - 7
4180	Miscellaneous	Unspecified school expenses	1 - 7
4181	Transportation	School transportation expenses	1 - 7
4182	Cafeteria	School cafeteria expenses	1 - 7
4183	Student Entry / Competition Fees	Fees for spelling bees, math contests, etc…	1 - 7
4184	Athletics	School athletic expenses	1 - 7
4185	Band	School orchestra, band, chorus expenses	1 - 7
4186	Publications	Student publications, year book expenses	1 - 7
4187	Bookstore	School bookstore expenses	1 - 7
4188	Student Clubs	Student government & club expenses	1 - 7
4189	Alumni	Parent & alumni expenses	1 - 7

ACCT #	ACTIVITY & ENTERTAINMENT	EXPLANATION	PROGRAM #
4249	Special Fund Raising Events	Bazaars and festivals	1 - 7
4250	Special Events-Non Fund Raising	Parish activities & dinners and funeral dinners	1 - 7
4251	Club and Group Expenses	Expenses associated with group/club operations	1 - 7
4257	Bingo	Prize money, game supplies, etc…	1 - 7
4258	Pickles		1 - 7
4259	SCRIP	Write-off unaccounted for SCRIP inventory	1 - 7

ACCT #	OTHER OPERATION EXPENSES	EXPLANATION	PROGRAM #
4500	Farm Rental		1 - 7
4501	Farm Operation		1 - 7
4502	Building Rental		1 - 7
4530	Cemetery		1 - 7
4999	Capital Outlay	Capital asset purchases (new & improvements)	1 - 7

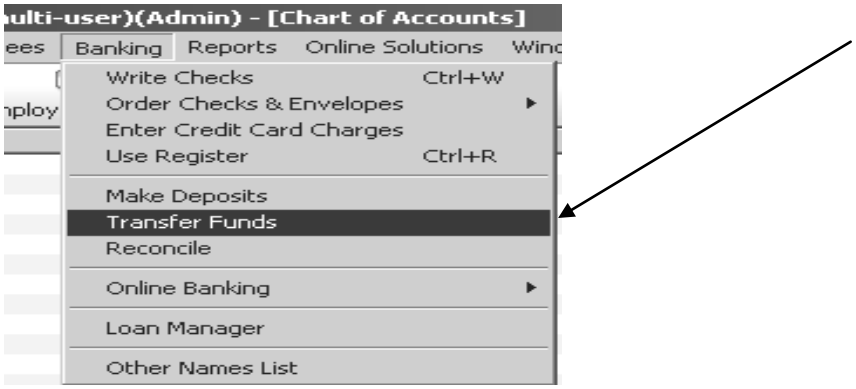
ACCT #	OTHER INCOME (below-the-line in QuickBooks)	EXPLANATION	PROGRAM #
3194	Unrealized G/L on Investments	Market value fluctuations of investments	1 - 7
3195	Unrealized G/L on Endowments	Market value fluctuations of endowment investments	1 - 7

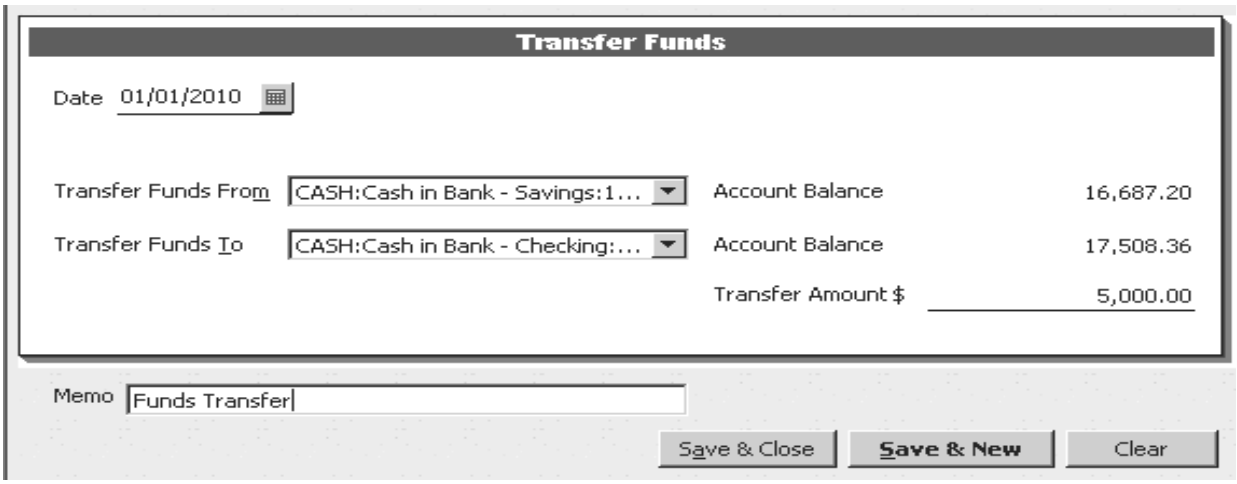
BANK ACCOUNTS

All checking and savings accounts that utilize the parish tax identification number must be listed as assets in the parish QuickBooks file.

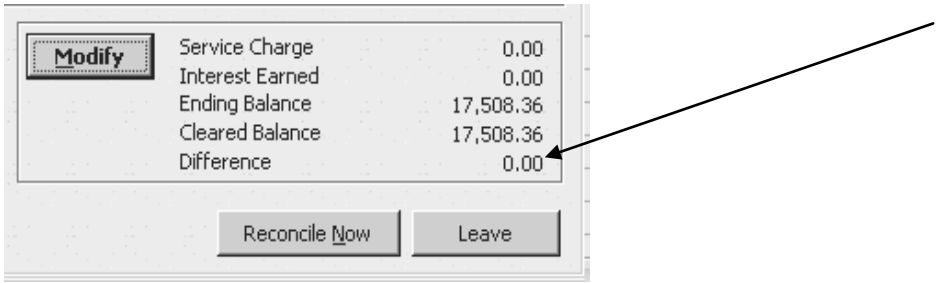
The transactions that occur within each bank account must be recorded in QuickBooks, either as individual transactions (each check and deposit) or as summarized monthly journal entries (allowed for bank accounts used by parish groups and clubs). Although monthly journal entries are permitted for accounts used by groups and clubs, it is strongly recommended that individual transactions be recorded for every bank account in QuickBooks to provide maximized detailed information.

Any transaction that consists of moving money from one parish account to another should be shown in QuickBooks as just that, as a transfer. Any such transaction should have no effect on the profit and loss statement, as no revenue/expense is being realized. While you can record transfers in QuickBooks using several different functions, it is strongly recommended that such transactions be recorded using the 'Transfer Funds' function (see images below).





All bank accounts should be reconciled monthly within the QuickBooks file to ensure that no errors have been made by the QuickBooks user(s) or by your financial institution. It is strongly recommended that after an account is reconciled, that the bank reconciliation report be printed and stapled to the applicable bank statement. When finished with a reconciliation, the 'Difference' on the reconciliation screen should always be $0.00. If this is not the case, the reason should be investigated prior to finishing the reconciliation.



The number of parish bank accounts should be limited as much as possible (see Due Diligence in Financial Matters policy in the Parish Business Administrative Handbook), as QuickBooks enables you to track designated funds within bank accounts by setting up sub-accounts. By using sub-accounts and class tracking, a parish can track all separate funds along with their income and expenses and do this through one actual bank account. With the exception of bank accounts that are required to be established as separate for legal or contractual purposes (such as a school lunch program or bingo operation), parish bank accounts should be consolidated when possible and tracked in QuickBooks within the main operating account.

EXAMPLE:

CASH

Cash in Bank - Checking

1001 . Operating Account

1001a . Parish - General

1001b . Athletic Club

1001c . Men's Club

1001d . Fall Festival

1001e . Ladies Guild

In the example above, the 'Operating Account' is actually one bank account in which several funds are tracked. So, even though only one reconciliation will take place each month, the balance of each fund within the account is easily seen when looking at the balance sheet.

If funds are tracked this way in QuickBooks, it is important to note that even though the earmarked funds are only a portion balance of a single bank account, transactions in QuickBooks that affect these funds will still affect each fund individually (while affecting the main bank account in total at the same time). To illustrate, from the above account structure example, if a check is written from the operating bank account but from the Men's Club funds, the check in QuickBooks will be from the Men's Club sub-account (as this is still a part of the Operating Account). Doing so decreases the available Men's Club funds, but as a header account, it also appropriately decreases the Operating Account as well.

PETTY CASH

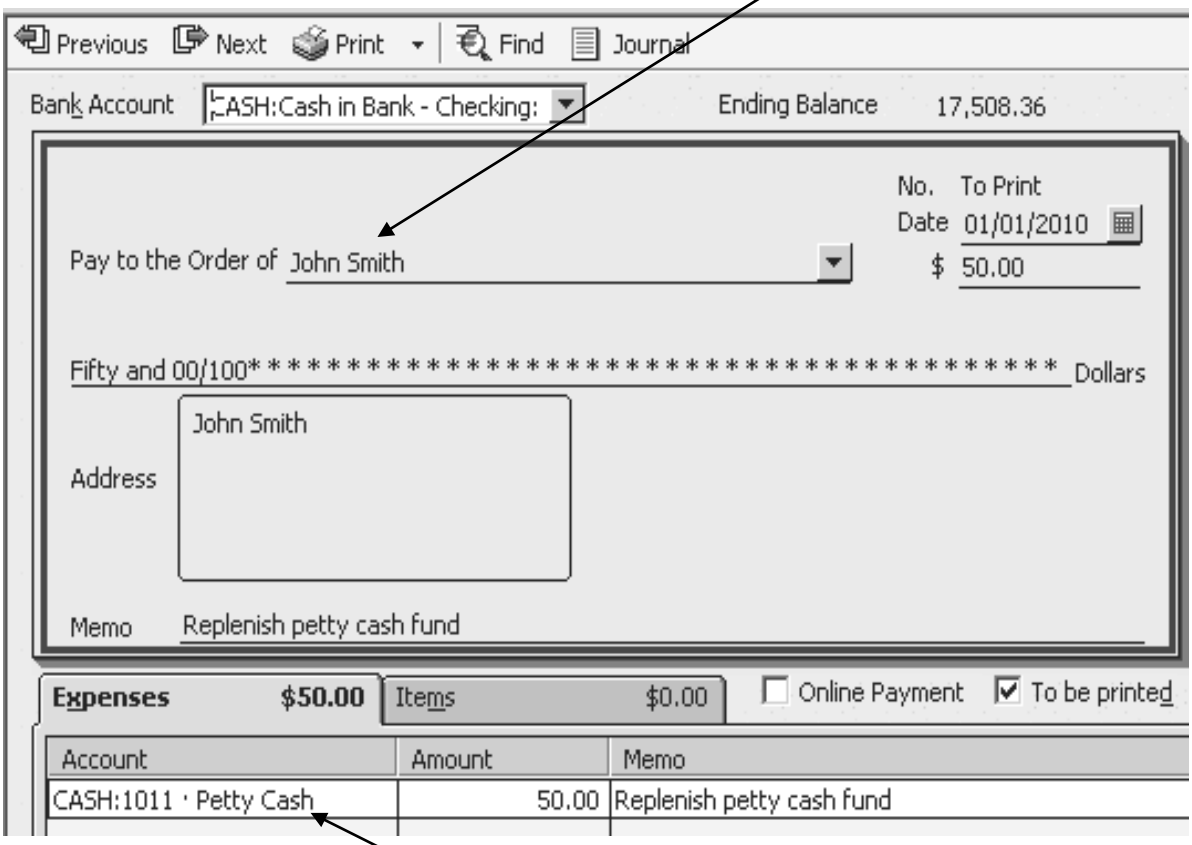
<u>If a parish maintains a petty cash fund, it is strongly recommended that the fund not be maintained at a level above $100.</u>

As a general rule, petty cash disbursements should not individually exceed $25, as large disbursements should be made by check or some other recordable transaction (such as electronic funds transfer).

Petty cash disbursements should be supported by detailed documentation such as a purchase receipt.

When a check is written to replenish the petty cash fund, the recorded transaction in QuickBooks should consist of a written check from the applicable bank account, increasing the petty cash asset account. Such a transaction will not affect the profit and loss statement, as the replenishment amount is simply being taken from the applicable checking account and increasing another parish asset, the petty cash fund, both within the balance sheet.

(Check payable to fund's custodian)

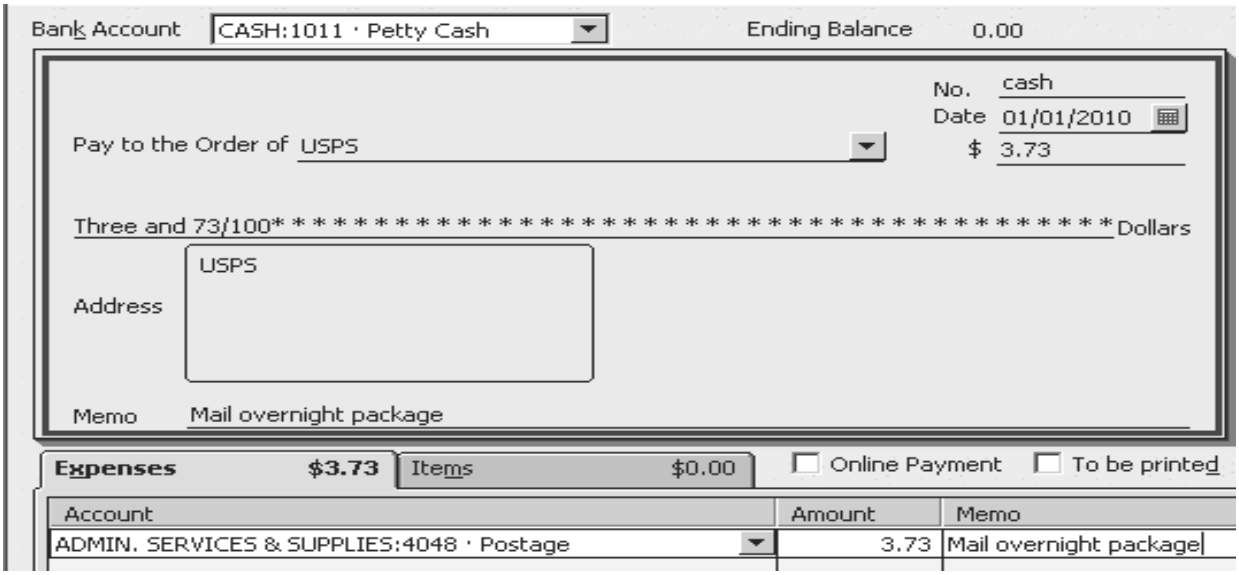


(Because 'Petty Cash' is an asset, this debit represents an increase).

When the petty cash is spent, the recorded transactions in QuickBooks should decrease the petty cash asset account and be expensed against the proper expense account (postage, office supplies, etc…). Accounting for the petty cash transactions by recording expenses allows a true picture of the parish's expenses to be maintained.

EXAMPLE:

$3.73 is spent from the petty cash fund to mail an overnight package:

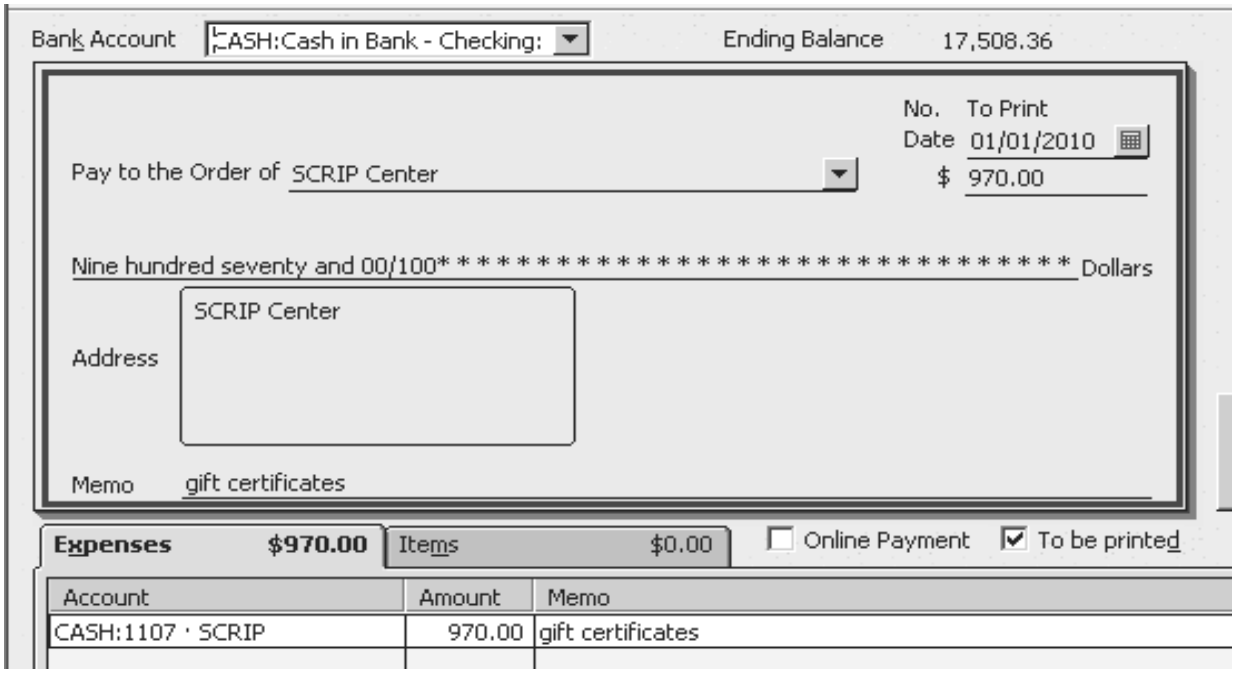


The above transaction reduces the petty cash by the amount spent and accounts for the mailing expense.

SCRIP

If SCRIP gift certificates are purchased and sold to raise funds, the overall SCRIP balance must be presented as an asset in the balance sheet and tracked within the parish QuickBooks file. Because the gift certificates are essentially cash-equivalents and carry true monetary value they must be treated as inventory.

The SCRIP balance, represented in account 1107 'SCRIP,' is the current value of the gift certificates recorded at *cost value* (the discounted value), not the face value of the certificates. So, when a check is written to purchase SCRIP, the account chosen under the 'Expenses' tab will always be account 1107 for the inventory purchased (which will increase the SCRIP inventory).



If shipping & handling is charged when SCRIP is purchased, account 4259 'SCRIP' (an expense account) should be used because that is a parish expense and does not increase the SCRIP inventory. That portion of the amount due will be entered on the second line under the 'Expenses' tab.

When sales of SCRIP occur and a deposit is made into the parish bank account, the deposit should show a decrease in the SCRIP asset account (in the amount of the cost of the purchased SCRIP) and an increase in SCRIP revenue (the difference between the deposit amount and the amount of the decreased SCRIP inventory).

EXAMPLE:

A deposit of $200 is made, which represents the sale of four Hy-Vee gift certificates valued at $50 each. Each Hy-Vee gift certificate was purchased by the parish for $45.

Within this example, the SCRIP inventory is decreased by $180.00 (four certificates purchased for $45 each) and the revenue realized is the difference between the purchase price and face value of each sold certificate. The $200.00 deposit will show a credit to account 1107, 'SCRIP,' of $180.00 and a credit to account 3259, 'SCRIP Revenue,' of $20.00.

Back Orders

If your parish accepts payment for 'back orders,' you can still record the payment or payment-portion for SCRIP not-yet-purchased as normal if the parish discount (recorded revenue) is already known. This would essentially decrease the SCRIP asset account temporarily for SCRIP to-be purchased but would be increased back to accuracy upon purchase and recording of the pre-ordered SCRIP. If the parish discount is not known, you have the choice to record payment totally against the 1107 account, or the accommodation account can be used (a liability account discussed later in this manual). Using the accommodation account might ease tracking, but either is appropriate as long as the inventory account and SCRIP revenue are eventually adjusted upon the purchase of the pre-ordered SCRIP.

Internal Sales

SCRIP is sometimes used as "Thank You" gifts, prizes for a social event, coupons to be given to the poor, or for the purchase of groceries for the rectory. If your parish ever uses SCRIP for internally without an outside sale, you'll still need to account for the inventory reduction. The internally used or given SCRIP would still credit the 1107 asset account, but because there is no sale and therefore no debit to the parish bank account, the debit would instead be recorded against the applicable expense account (rectory supplies, donation to poor, etc…).

Reconciliation

The SCRIP inventory should be reconciled regularly (ideally, at least monthly). Upon reconciling the physical inventory of the gift certificates, a missing certificate requires a write-off where the 1107 asset account is decreased (credited) by the purchase price of the certificate and expense account 4259, 'SCRIP,' is debited. Generally, aside from shipping & handling costs, a lost or stolen gift certificate will be the only time the 4259 account will ever be used.

To summarize, because SCRIP gift certificates are essentially the same as cash, the inventory should be tracked and accounted for within QuickBooks (in summary form). <u>The majority of funds spent and received with SCRIP fundraising will only impact the balance sheet, as only the net profit will be recorded as revenue and only shipping & handling costs and lost or stolen certificates will be expensed.</u>

INVENTORY SHOULD ALWAYS BE KEPT IN A LOCKED SAFE OR OTHER SECURED AREA. ACCESS TO INVENTORY SHOULD BE LIMITED.

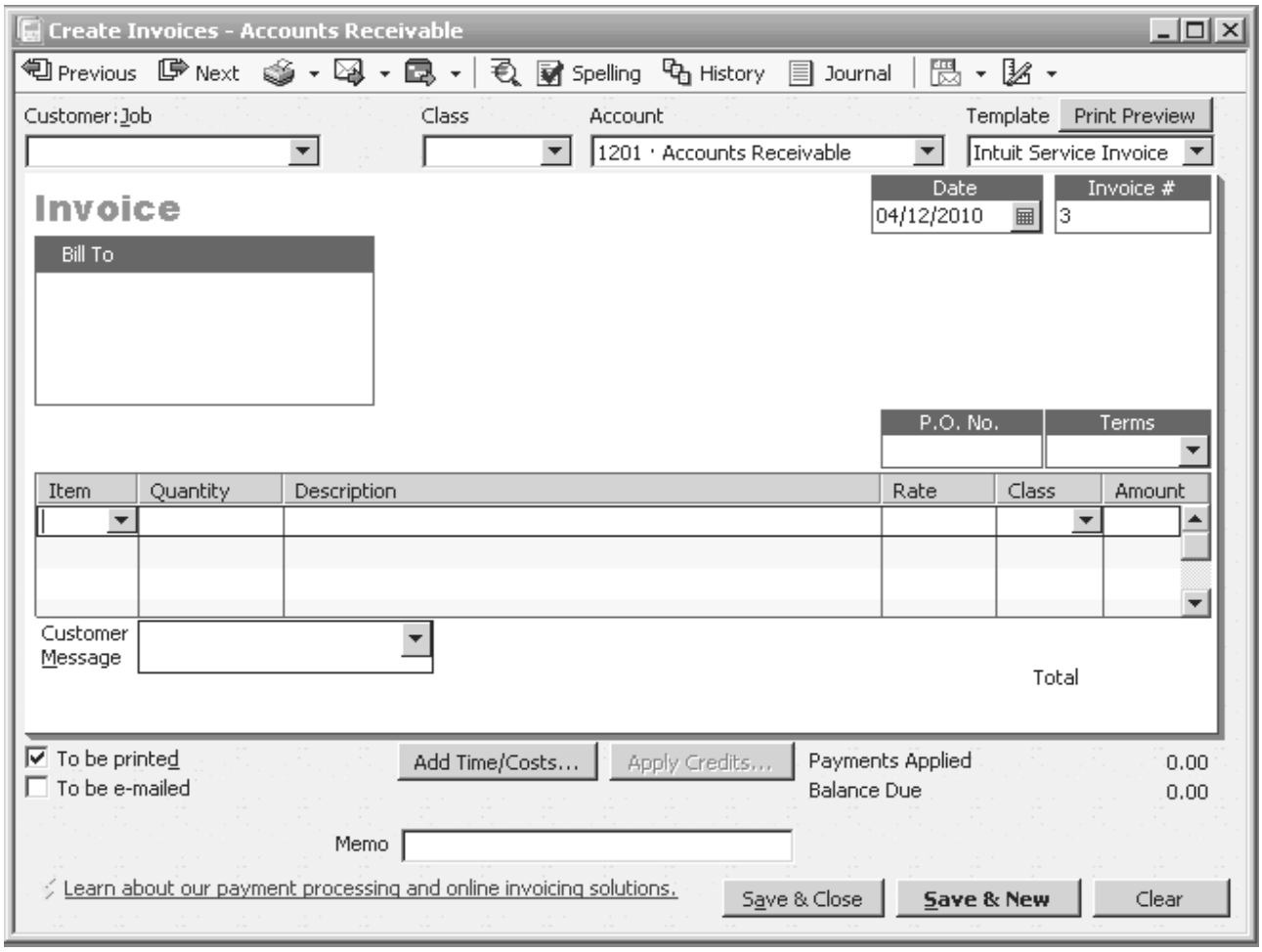
ACCOUNTS RECEIVABLE

Although parishes are required to operate on the cash basis of accounting, the accounts receivable functionality in QuickBooks can be a useful tool when there is a desire by a parish to create invoices and keep track of money owed. The use of accounts receivable will also increase the amount of information recorded and stored in one financial file, as using other computer programs or a manual system for such tracking will no longer be necessary.

The most practical use of accounts receivable is for billing and tracking payments for school tuition & fees (though it can be used to help track any number of things). When tuition invoices are initially given to parents, the balances due are recorded in QuickBooks and are then easily tracked in regards to payments made and balances remaining.

As stated earlier in this manual, because QuickBooks allows a user to easily switch between the accrual and cash basis and because files are defaulted to the cash basis, the financial information we export from your QuickBooks file(s) will remain consistent with the other parishes while allowing you to use this accrual-based functionality.

Create Invoices



As you can see from the displayed 'Create Invoices' screen in QuickBooks, there are many fields when entering a single invoice. When a typical invoice is recorded, the accounts receivable account selected will be increased by the invoice total (the amount due to the parish, an asset, is increased) while the corresponding revenue account(s) will also be increased.

The creation of an invoice is intended to record earned revenue, even though payment has not yet been received. The revenue is recorded in the time period it is earned. Again, as your QuickBooks file is defaulted to report on the cash basis, the recording of such an invoice would have no effect on the balance sheet or income statement (without changing the reporting basis on a given report).

When creating an invoice:

--A customer will always need to be selected. For a parish, the customer will most likely be a parent or parishioner. When an invoice is created for a particular customer, that customer's record is updated and their outstanding balance is changed.

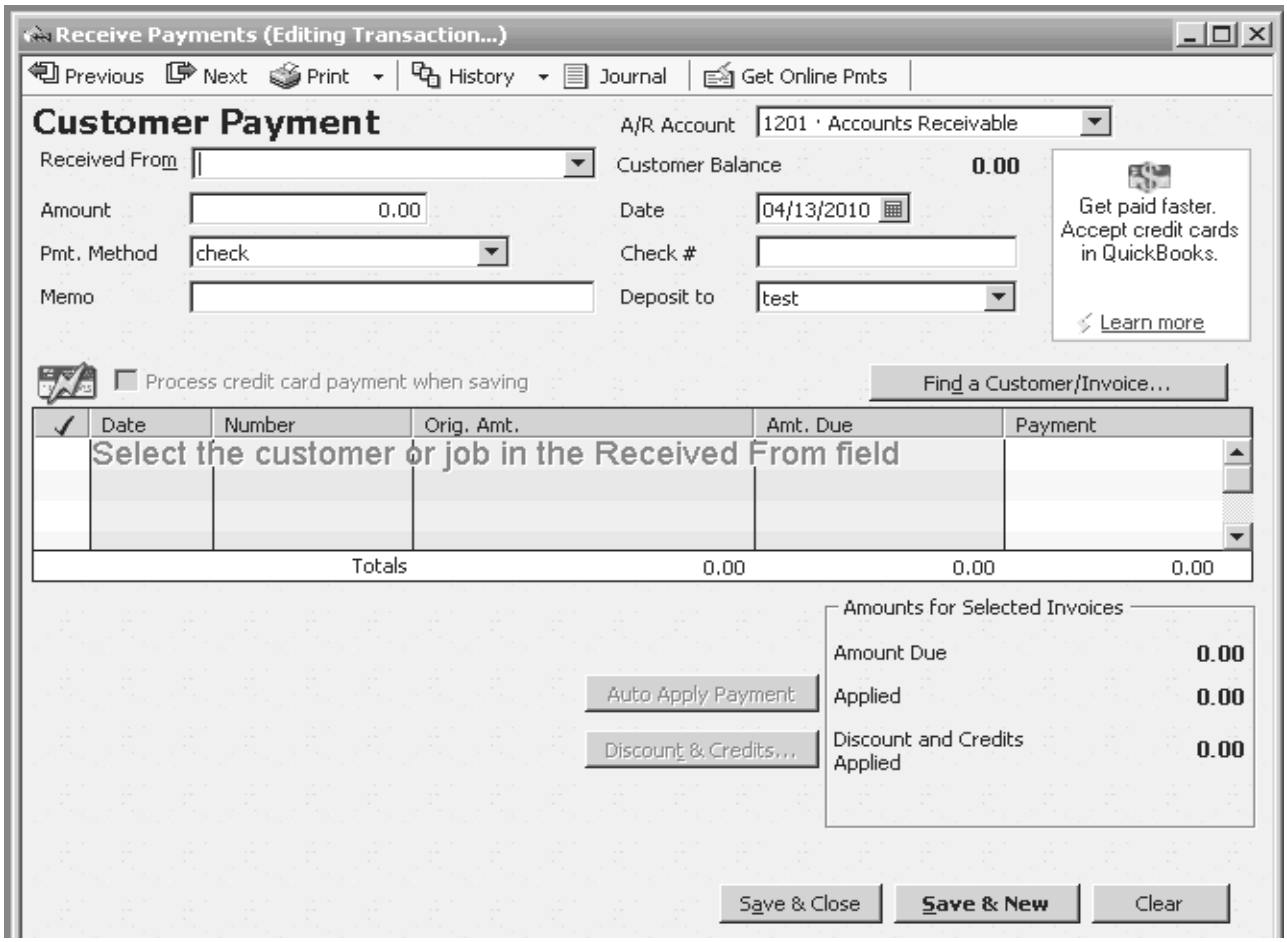
--The account selected in the **'Account'** field is the AR account that will be increased upon the invoice being recorded. This field is only present if at least one account has been added to the QuickBooks file with the account type of 'Accounts Receivable' (example: Tuition Receivable). If no AR accounts have been added, no choice is given and the invoice created will increase the QuickBooks-created default 'Accounts Receivable' account.

--The **'Item'** selected is very important. An item is chosen from the item list you have created to record the charge(s) on the invoice. The item chosen, when it was created or last edited, is directly linked to an account (most likely a revenue account) which is credited once the invoice is recorded. Multiple items can be selected when creating an invoice, so multiple item-related accounts may be affected when recording a single invoice.

--An **'item'** can also be created and used to represent a discount (such as a tuition discount), thus decreasing the overall amount due on an invoice. If a teacher gets a discount on his or her children that attend, an item can be created. This type of item will decrease the invoice amount and will thus create a debit transaction. The 'discount' item can be set up to increase an expense account or decrease a revenue account, depending on what the discount represents.

--Prior to printing an invoice, it can be customized to reflect the information you feel is appropriate and in the most desired fashion ('Customize' button is farthest-right on the top tool bar on the displayed 'Create Invoices' screen). Company information to print, font style and size, and color scheme can all be customized. Such customizations can be saved as a template so that future invoices can be created without having to manually customize each invoice.

Receive Payments



Once invoices are created, the payments that are later received must be properly applied to the corresponding invoices. This function in QuickBooks is referred to as 'Receive Payments,' and this must be properly understood by the user if accounts receivable is to be used correctly.

Typically, when money is received and ready to be recorded in QuickBooks, the 'Make Deposits' function will be used, or sometimes the 'Enter Sales Receipts' function (if you use QuickBooks to track donor giving). In order for QuickBooks to correctly recognize that a customer is paying all or part of a recorded invoice, when accounts receivable payments are received, you must use the 'Receive Payments' function to record such payments. If done correctly, all financial reports and customer accounts will remain accurate without worry.

<u>If you do attempt to record a payment from a customer with an open invoice using the 'Make Deposits' function, QuickBooks will warn you of what you're doing, as recording it this way will not correctly apply the payment against the corresponding invoice. The warning from QuickBooks will be a pop-up window displaying:</u>

When receiving payments:

--After you select the customer whose payment you are recording in the **'Received From'** field, QuickBooks will automatically display the current customer balance and list the open invoices that are available to apply the payment against. From here, the functionality is self-explanatory in regards to selecting the proper invoice(s) and recording the payment information.

--If you create and use multiple accounts receivable accounts, the above paragraph holds true, however, the customer's balance and open invoices are displayed *per accounts receivable account*. The account chosen in the 'A/R Account' field will automatically display any open invoices and customer balance that affect this A/R account.

--The **'Deposit to'** field represents the asset account that will debited, or increased, upon the payment being recorded. This sounds simple enough, as the payment will be part of a deposit into a bank account. It is a bit more complicated, as the A/R payments are being recorded individually, so you do not necessarily want to directly debit the applicable bank account.

--If the payment being recorded will be part of a deposit containing other payments (most likely the case), directly debiting the bank account in QuickBooks will make reconciling the bank account more difficult. You will show one bank deposit for any number of payments in QuickBooks, instead of an easier and more efficient one-to-one match.

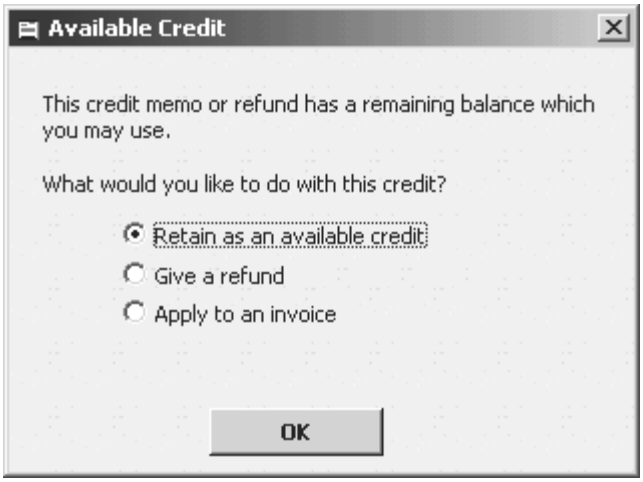
--QuickBooks has an already-established asset account titled 'Undeposited Funds.' This account can be chosen instead of the desired bank account to represent money that is to be deposited but is waiting to be recorded as such. Simply put, you will record all desired payments that will be part of a single deposit against the 'Undeposited Funds' account, and once all payments have been recorded, you will record the bank deposit as the total dollar amount and credit (decrease) the 'Undeposited Funds' account. The end result will be the 'Undeposited Funds' account netting to a zero balance and the bank account showing one single deposit, matching what the bank statement will display.

-- QuickBooks gives you the option of defaulting all A/R payments to the 'Undeposited Funds' account. If you do use the 'Undeposited Funds' account when recording A/R payments, this default setting will work to your advantage.

Credit Memos / Refunds

Occasionally a credit memo or refund will need to be created for such things as a customer overpayment or a scholarship given. The creation of a credit memo or refund basically works like an invoice, but in reverse. The item(s) chosen represents a debit to whatever account is directly linked to the item(s), as the other side of the accounting entry is a credit, or decrease, to an accounts receivable account. Depending on the situation, the debit to an account can be to an expense account (such as a scholarship given) or to a revenue account (which would reduce revenue, for such thing as an overpayment).

Once a credit memo or refund has been recorded, QuickBooks will allow you to use it in different ways. Typically it will be applied to an open invoice, thus reducing what the customer owes. It can also be retained as an available credit (to apply to a future invoice) or actually be refunded to the customer. QuickBooks will actually ask you what you want to do with it once it's recorded.



Create Statements

If you utilize the accounts receivable functionality, an important part of the process is creating and sending out past-due statements. QuickBooks provides many options for what information is included and how it is displayed when creating statements. You can specify a certain date range, include only transactions over a certain amount of days past due, or include only certain customers or types of customers. The statement design can be customized in many ways, to include the font used, the company information provided, and the addition of a company logo. Any new design template created can be saved and used with future statements.

This section discussing the accounts receivable functionality in QuickBooks is not all-encompassing, but is meant to serve as an overall guideline on the basics of use. If you do use this functionality and need further instruction on specifics, please contact the Chancery Finance Office.

INVESTMENTS / ENDOWMENTS

All parish investments, such as certificates of deposit, bonds, and mutual funds, must be listed and accounted for in QuickBooks. These investments should be listed under the 'INVESTMENTS' header account in QuickBooks and each separate asset should have its own account in QuickBooks (each individual CD, each brokerage account, etc…).

Deposit & Loan investments should be listed under the 'D & L' sub-header account (under 'INVESTMENTS') and each separately issued CD should have its own account in QuickBooks.

Endowments* (a pool of funds legally and permanently restricted by donor(s) for a specific purpose) that are controlled by the parish should be listed under the 'Endowments' sub-header account (under 'INVESTMENTS') and each endowment should have its own account in QuickBooks. Only legal endowments should be listed under 'Endowments,' so if a parish has an investment that is restricted but not a legally established endowment, it should be listed under the 'INVESTMENTS' header account but not under the sub-header 'Endowments.'

**Endowments must be established through an Archdiocesan-approved plan document*

To illustrate:

INVESTMENTS

- 1031 . US Bank CD 1234567
- 1032 . 1st National CD 234567
- 1033 . Schwab Investments 345678
- D & L
  - 1041 . D&L CD 1234
  - 1042 . D&L CD 2345
- Endowments
  - 1051 . M. Lynch Endowment 12345678
  - 1052 . American Funds Endow. 23456789

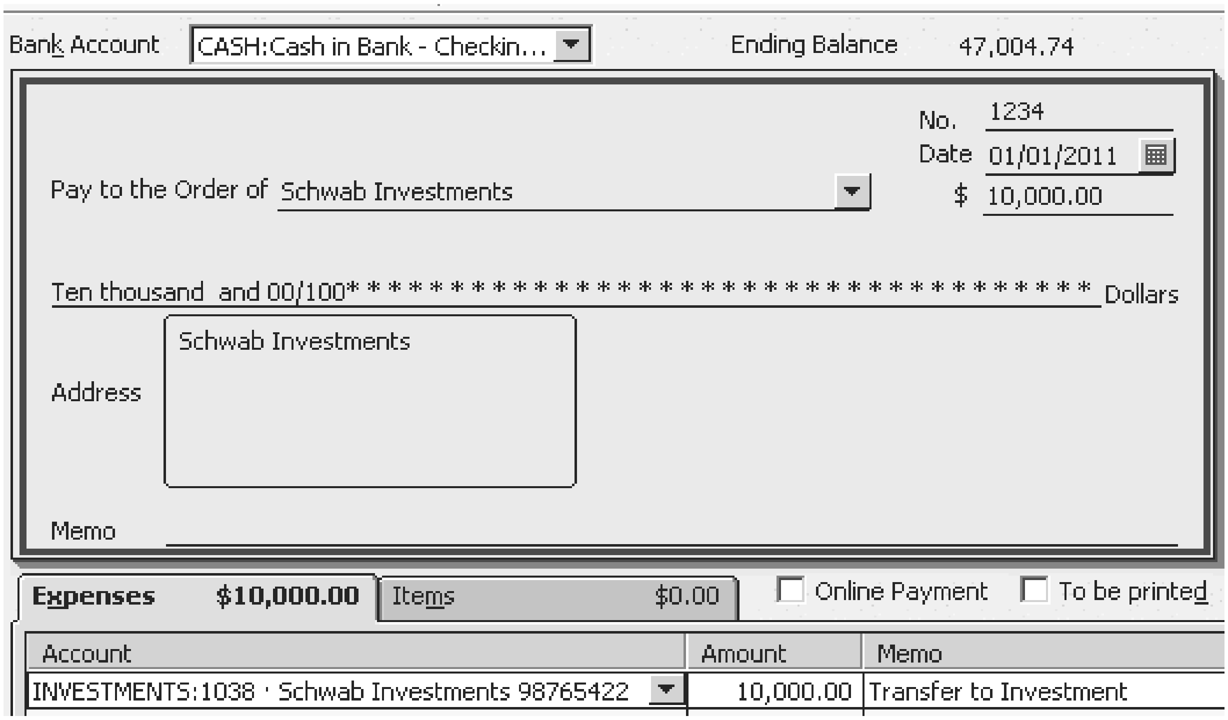
All accounts that are found within the INVESTMENTS grouping have an account type of 'Other Asset' in QuickBooks. Investments should be accounted for in QuickBooks similar to how bank accounts are handled (by recording the transactions that cause an account's balance to change). Examples of such transactions are deposits, withdrawals, transfers, interest & dividend income credited, administrative fees, realized gains or losses (gain or loss from sale of asset), and unrealized gains or losses (change in value from market fluctuation).

On a monthly or quarterly basis (depending on how often statements are received), investments should be updated in QuickBooks to represent their current value. This can be compared to a bank reconciliation, as you will look at a statement balance and record in QuickBooks any transactions that have yet to be recorded and have caused the account's balance to change.

Transaction Examples

The types of investment transactions that should be recorded in QuickBooks *when they occur* are deposits (to increase or create an investment account) and withdrawals / distributions (from an investment account to another parish asset), which are both essentially transfers. Such transactions are asset-to-asset transactions, as one asset is increasing while another is decreasing.

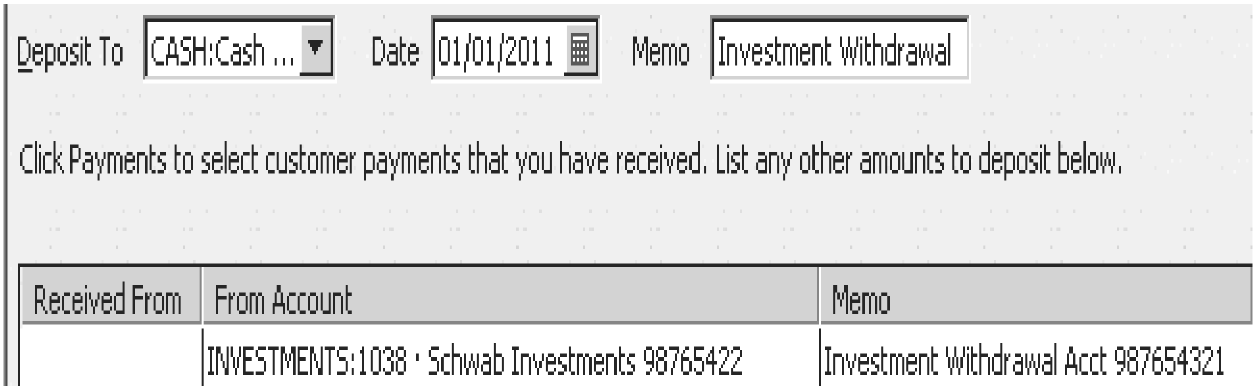
A deposit to increase an investment account (from 'Write Checks')


Bank Account CASH:Cash in Bank - Checkin…
Ending Balance 47,004.74
No. 1234
Date 01/01/2011
Pay to the Order of Schwab Investments
$ 10,000.00
Ten thousand and 00/100*********************************** Dollars
Address Schwab Investments
Memo

Account	Amount	Memo
INVESTMENTS:1038 · Schwab Investments 98765422	10,000.00	Transfer to Investment

The above example represents a check being written from a parish checking account (the checking account is being credited, or decreased) and a deposit into an investment account (the 'Expenses' line realistically debits the account selected, so the investment account, an asset, is increasing upon being debited).

A withdrawal / distribution from an investment account (from 'Make Deposits')


Deposit To CASH:Cash …
Date 01/01/2011
Memo Investment Withdrawal

Click Payments to select customer payments that you have received. List any other amounts to deposit below.

Received From	From Account	Memo
	INVESTMENTS:1038 · Schwab Investments 98765422	Investment Withdrawal Acct 987654321

The previous example represents a deposit being made to a parish bank account (the bank account is being debited, or increased) and a withdrawal from an investment account (the 'From Account' line realistically credits the account selected, so the investment account is decreasing upon being credited). This type of transaction is important to emphasize, as the investment account in the example could well have been an endowment.

A distribution from an endowment (typically representing money earned over time) is different than a withdrawal from a parish-owned asset, as the distribution is coming from a legally separated pool of dollars. But because the parish-controlled endowments are listed on the balance sheet and the income earned is recorded regularly, it is important for you to think of such a distribution as an account transfer like any other. If a distribution is received from an endowment and the endowment's balance is up-to-date in QuickBooks (which is required), such a transaction will only affect the balance sheet, as it represents an asset-to-asset transaction. Investment income and related expenses, especially from endowments, will be discussed in further detail later in this manual.

The previous transaction examples are shown from the 'Write Checks' and 'Make Deposits' windows, but any one transaction can be recorded using different functions in QuickBooks with the same result (as no matter the function being used, the accounting taking place is simply accounts being debited and credited). The 'Transfer Funds' function and the 'Make General Journal Entry' function could also be used to record such transactions as the examples above. It's important to choose the function that makes the most sense for the type of transaction to be recorded and for you as a user to feel comfortable with the function being used.

Transactions Affecting Investments: The Rest of the Story

As all investment accounts need to be updated to reflect current value on at least a quarterly basis, the majority of entries to adjust account balances will be based on account statements received from various financial institutions.

Like a bank statement, a statement dealing with an investment account will be for a certain time period (typically monthly or quarterly) and will have a beginning balance and ending balance, with information on the difference. This information provided, aside from any withdrawals or additions that were recorded when initiated, will be used by you to record the transactions affecting the account. <u>Once properly recorded, the account balance in QuickBooks should reconcile with the balance shown on the provided statement.</u>

A statement for an individual certificate of deposit owned (at a commercial financial institution or the Deposit & Loan Fund) might be received in regular intervals or only when certain events occur (i.e. early withdrawal).

> -- A statement might show an increase in the account because of accrued interest transferred to principal, and such a transaction would be recorded showing interest earned (revenue increased) and the asset increasing.

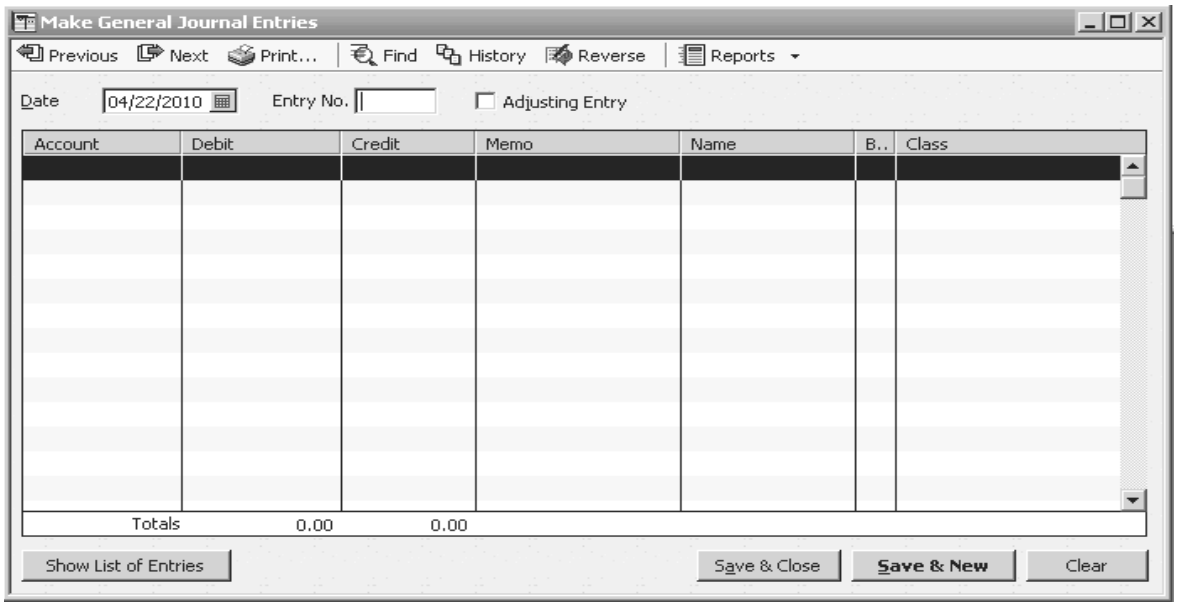
--A statement could also show a CD being cashed out, showing the interest potion of payment (interest revenue increased for any portion not yet recorded) or possibly an early withdrawal penalty, which would result in the account balance in QuickBooks being reduced to $0.00 and the penalty increasing the applicable expense account.

A statement for an investment account or endowment will typically include different types of investments and should be grouped in some reasonable fashion to distinguish between different investment types. Each investment account as a whole is a separate account in QuickBooks, even though an account might have a multitude of individual investments in securities, stocks, mutual funds, etc… The transactions affecting an investment account will typically affect multiple accounts in QuickBooks, and as stated before, the associated income and expenses will be discussed in detail later in this manual.

--No matter how many individual investments make up an account, the process of reconciling the monthly or quarterly statement does not have to be difficult. Some statements are more clear and easier to comprehend than others, but once you have the process down, the reconciliations should become second nature.

--When looking at your most recent statement, the first thing to note is if the overall account balance has increased or decreased. This, while taking into account any transactions already recorded in QuickBooks, for such things as deposits and withdrawals, will provide you the first line for your accounting entry.

--The accounting entry you record to update an account's balance will be recorded via **journal entry**. A journal entry is the most basic accounting function in which you select both the debit and credit sides, which always balance. A journal entry is just like a check, deposit, and transfer in QuickBooks. With all functions, accounts are being debited and credited and the balance sheet and income statement are being affected individually or both simultaneously. When creating a journal entry, a user must know and understand how debits and credits work in accounting.



--The remainder of the accounting entry for the account's reconciliation will consist of recording what caused the account's balance to change. Any withdrawal or deposit already recorded will obviously not be part of this adjusting entry, but is part of the overall monthly or quarterly adjustment that would have been part of the entry if not previously recorded.

--Interest or dividends received will be credited (revenue), administrative expenses will be debited (expense), and unrealized gains (credits) or losses (debits) (the fluctuation in market value) depend on the increase or decrease in market value. It is worth noting that although unrealized gains / losses are recorded when adjusting an account's balance, this gain or loss is *unrealized*, meaning it represents a gain or loss that *could* have been actually earned or lost if the investment had been sold.

--There is one other type of transaction that can affect an account's balance, and that is a realized gain or loss. The gain or loss would represent the difference between the sale proceeds and the book value of the investment. In the rare instance that this type of transaction would occur, it too would be part of the reconciliation accounting entry.

The above information on reconciling an investment account's balance focuses on how such an entry is recorded and what types of things affect the account's balance. **The investment income and related expenses will be discussed in further detail later in this manual.**

PROPERTY, PLANT & EQUIPMENT

Property, plant & equipment (PP&E), also known as fixed assets or plant assets, are assets of a substantial nature. They are long-term and will provide benefit for more than one fiscal year. Examples include buildings, equipment, vehicles, and land.

Expenditures for the purchase of PP&E are typically called capital expenditures. This refers to the act of capitalizing an asset. To capitalize means to charge an expenditure to an asset account (balance sheet) rather than to an expense account (income statement).

When a capital expenditure occurs, parishes should **not** capitalize the purchase. Instead, such purchases should be recorded against expense account 4999, 'Capital Outlay.' There are two exceptions to this rule (purchases of land and works of art) and these will be discussed later in this topic.

Why would a business capitalize certain expenditures?

Normally, a business capitalizes such expenses because they are material and benefit several accounting periods. As part of the accrual basis of accounting, the cost(s) associated with a PP&E purchase are allocated to the accounting periods in which services are received from the asset. In short, an asset is expensed over its life, rather than fully upon purchase. Such allocation is accomplished via *depreciation.*

Depreciation is the process of allocating the cost of an asset to expense over a period of time.

Why don't parishes capitalize / depreciate PP&E?

To ease the record keeping and complexities of PP&E management, the Archdiocese of Omaha established the policy of not allowing for depreciation. Because parishes do not operate on the accrual basis of accounting, the capitalization and multi-year cost allocation of PP&E is not required. Instead of expensing an asset over *x* number of years, the asset is expensed in the year purchased (using the easily-distinguishable 'Capital Outlay' account). Parishes can still track PP&E and have such assets represented on the balance sheet (discussed later in this topic).

Depreciation in Detail

Even though parishes are not permitted to depreciate assets, it is important to understand what depreciation represents so that your own parish's financial statements are completely understood. The purpose of depreciation is to apply the matching principal, which is the cornerstone of accrual based accounting in which costs incurred in a given period are matched against the revenue generated in the same period. Depreciation is not a process of valuation, but of cost allocation. Accounting records do not attempt to show current market value of PP&E. A common misconception about deprecation is that it provides funds for the replacement of PP&E. In reality, it reduces net income and differs in that it does not involve an actual current cash outflow. Funds for asset replacement come from revenue.

Accounting for Capital Purchases

To account for fixed assets, you must first be able to distinguish such purchases from routine maintenance or insignificant items, such as trash cans, which may last a long time. To do this with ease, each parish should follow a capital purchase threshold policy. If your parish does not already have one in place, the policy of the Archdiocese of Omaha should be followed.

Capital purchases are classified as such if they have a cost of $1,000.00 or more **and** a useful life or more than two years.

An asset (singular) and all related costs must meet the required threshold. If multiple assets are purchased at the same time, their total cost would not be the threshold trigger. To illustrate, if a computer is purchased which costs $1,200.00, the asset would be record against the Capital Outlay account. If three cameras are purchased at one time, each costing $500.00, such a purchase would not be considered 'capital' and would be recorded against a routine expense account.

Even with a capital threshold policy, it can be easy to mistake maintenance & repairs with capital purchases. Maintenance costs should be recorded against a routine maintenance & repairs expense account. Even significant repairs that **do not extend the life of or improve the asset** (the repairs merely return the asset back to its previous condition) are considered maintenance & repairs. Only new assets or considerable improvements to existing assets should be recognized as capital expenditures; fixing or maintaining an existing fixed asset does not constitute using the Capital Outlay account.

When recording a capital purchase against the Capital Outlay account, all costs associated with the asset purchase should be recorded against the account. This would include any shipping & handling and installation. Basically, the cost of a capital asset will include all expenditures that are responsible and necessary for getting the asset to the desired location and ready for use.

The Capital Outlay account is an expense account like any other, but it was created and is set apart in fact so that capital purchases can still be appropriately expensed (at one time instead of over many years) but easily distinguished as being long-term in nature and beneficial to multiple accounting periods. Capital purchases could easily distort an income statement if such purchases were recorded against a routine expense account, such as a maintenance account. Using the Capital Outlay account will provide more transparency and clarity in financial reporting.

Sub-accounts can always be added under the Capital Outlay account to clearly distinguish capital asset types. Examples of such include 'Building Improvements,' 'Vehicles,' and 'Technology Equipment.'

Exceptions - Land & Works of Art

There are two types of capital assets that are exceptions when it comes to how such purchases are to be recorded and accounted for. Land is assumed to have an unlimited useful life and rare works of art and historical collections are assumed to be inexhaustible. Such purchases will be rare, but if land or significant works of art are purchased by your parish, the recording of the purchase will involve capitalizing the asset rather than expensing it. Such purchases would not be depreciated in even a normal business setting because of the inexhaustibility of the asset

types. Upon recording such a purchase, you will debit one of the PLANT & EQUIPMENT asset accounts (accounts 1401 – 1426) rather than the Capital Outlay expense account. When such a purchase occurs, it will be important to call attention to the purchase and its capitalization to the Finance Council, as the income statement will not be impacted.

Balance Sheet Reporting

How are such long-term assets represented on the balance sheet? There are two options, depending on the type of capital asset purchase.

--Using the insured values provided by Catholic Mutual Group to record PP&E on your balance sheet is permitted. A majority of parishes already do this, and such amounts are for informational purposes only on the balance sheet. Using the CMG values makes sense especially for the older church and school buildings built decades ago, as the true cost of construction cannot be substantiated. For PP&E on the balance sheet with CMG values, you can increase/decrease an account's balance if an asset's value is changed by CMG. Such an entry will be made via a journal entry, and an equity account (equity section of the balance will be discussed later in this manual) will be chosen as the offsetting side of the entry.

--For new capital purchases, the asset's purchase amount can be used when adding the fixed asset to the balance sheet. This should only be considered for a purchased asset or improvement that is distinct and set apart from any CMG values already on the balance sheet. To illustrate, if a new vehicle is purchased for the parish, the cost of the vehicle could be recorded in the applicable asset account. But, if a new HVAC system is purchased and the old HVAC system was included as part of a CMG insured value already recorded on the balance sheet, the capital asset should not be added to the balance sheet. The CMG value would just need to be updated the next time it changes. If a new asset purchase is recorded at cost, it is important to remember to not add that asset again once added by CMG as an insured value.

--So, for new capital purchases that are separate and distinguishable from already existing balance sheet fixed assets with CMG values, you have the option to record such capital purchases at cost. This is an option, so you can continue to have the PP&E section of your balance sheet be fully represented by the insured valued provided by CMG.

Whether updating an asset's value per CMG or adding a new asset at cost, such a transaction will be recorded by using a general journal entry and will affect an asset account and an equity account. You can create a new equity account in QuickBooks to represent your PP&E if one is not already created. It can be titled, as an example, Plant Fund and this way you can clearly distinguish between equity from operations and equity from PP&E.

The 1401 – 1426 asset accounts used to represent PP&E are high-level in title, so you can add sub-accounts to clearly identify specific assets. To illustrate, under account 1422 'Vehicles,' you can add a sub-account titled after the specific make/model of a parish vehicle.

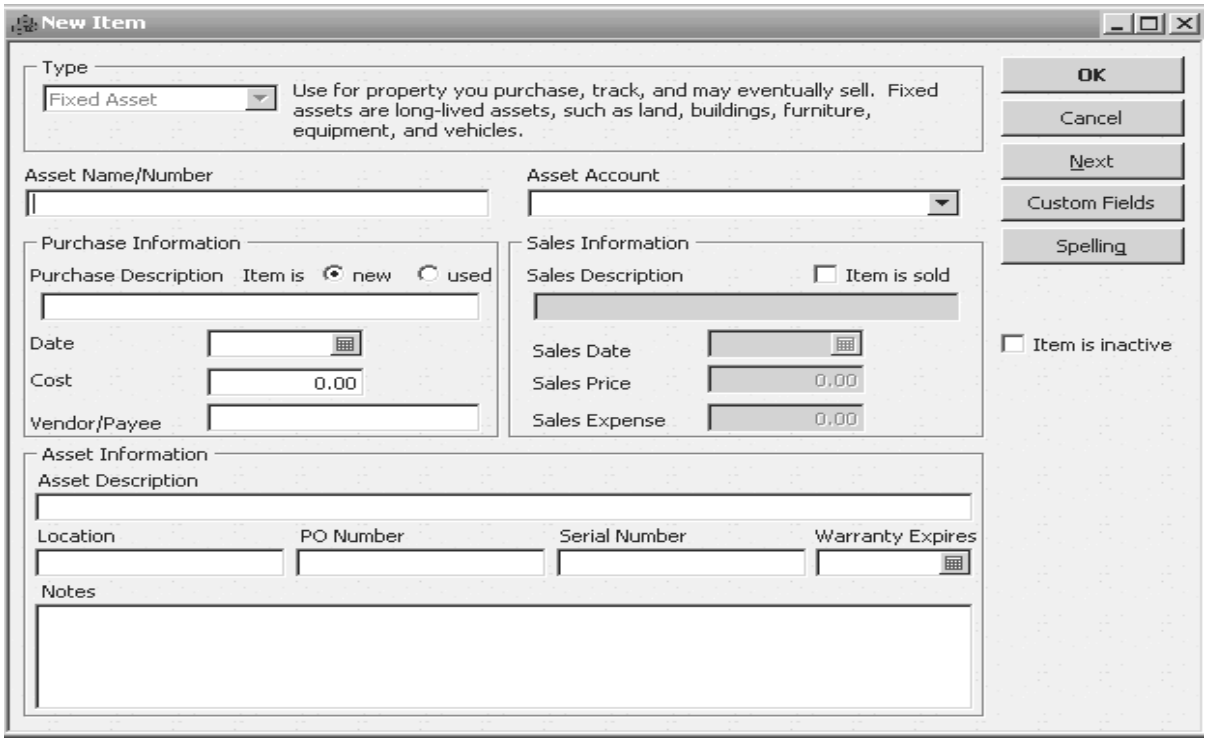
Keeping Track of PP&E

No matter how a business accounts for PP&E, it is important to keep track of all owned assets. This can be done manually, in spreadsheet format, or even in QuickBooks. Every parish should maintain permanent records of all fixed assets. Each asset record should detail the following information:

- Asset Description
- Serial Number
- Purchase Date
- Vendor or Party Purchased From
- Purchase Price
- Physical Location
- Balance Sheet Account Charges
- Disposal Date, When Applicable

With QuickBooks Enterprise, you are now able to enter such information for PP&E and keep track of each record for easy access. Reports can be generated to easily list PP&E and desired specifics. To enter new or maintain existing PP&E items, simply click 'Fixed Asset Item List' under the QuickBooks header 'Lists' column.

Below is an image of the 'New Item' window in QuickBooks where you can enter asset details for PP&E items:



Disposal / Sale

When a fixed asset is no longer owned by your parish, whether through sale, theft, or disposal, it will need to be removed from the balance sheet. If the asset was added at cost upon purchase, the asset should be removed once the asset transfers ownership or is disposed of via journal entry (the entry will be a reversal of the entry that added the asset). If the asset is valued on the balance sheet per CMG but is a separate asset and value, it should be removed once the asset is no longer in possession. If the asset is valued on the balance sheet per CMG and is a part of a large valuation, such as furnishings and equipment, the value should be increased/decreased once CMG makes a value adjustment.

If a sale of a fixed asset occurs, a gain (or loss) will need to be recorded and this type of income will be discussed later in this manual in the income section.

Summary

Accounting for PP&E doesn't have to be difficult. To summarize this topic:

- Property, plant & equipment are long-term assets that benefit multiple accounting periods.
- Parishes are not to record depreciation (act of expensing an asset over a number of years) but are to expense capital expenditures upon purchase using account Capital Outlay.
- Land and works of art are the two exceptions, as upon purchase you will capitalize (record directly to the balance sheet) instead of expensing.
- PP&E should be represented on your balance sheet, and this can be done using Catholic Mutual Group insured values or a combination of those values for historical assets along with assets' cost for newly acquired assets.
- Records should be kept permanently for fixed assets.
- When as asset is no longer possessed, it will need to be removed immediately or when an update in values is received by CMG, depending on how the asset was recorded.

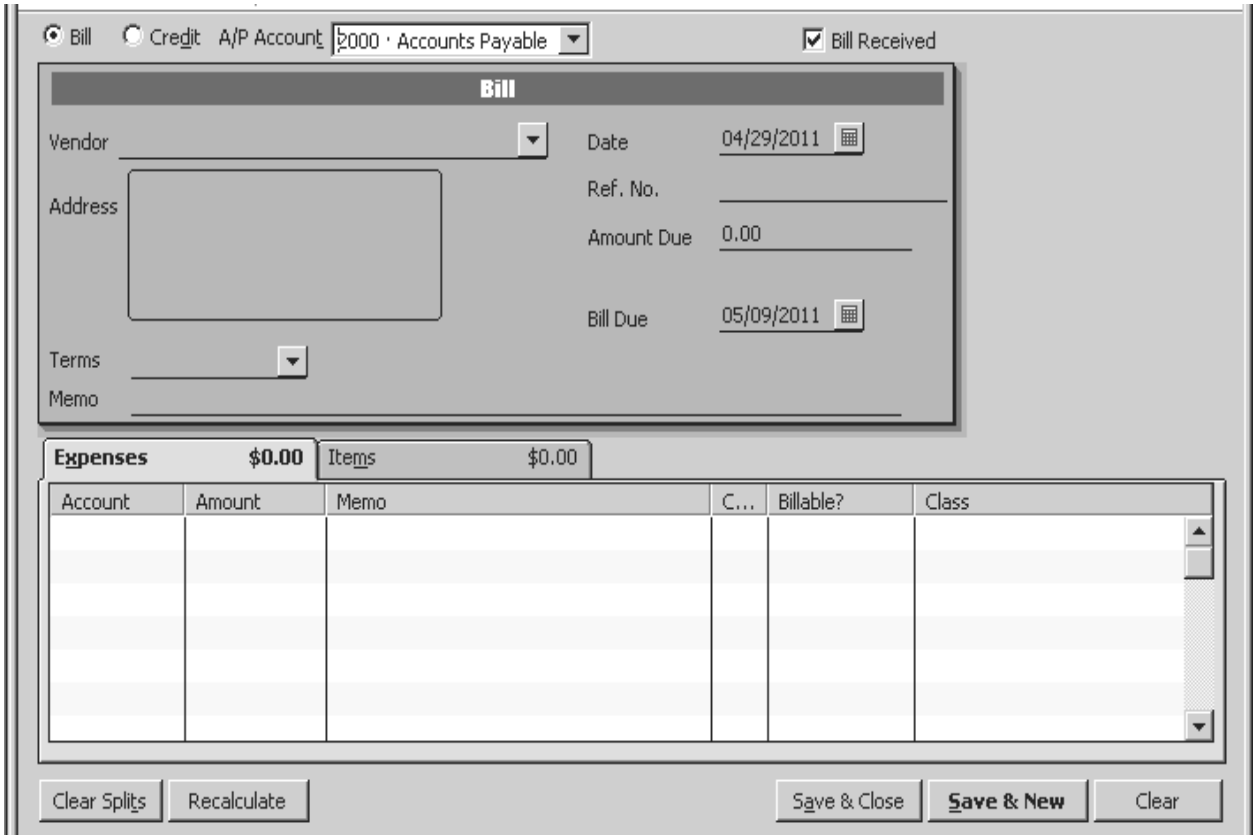
ACCOUNTS PAYABLE

Although parishes are required to operate on the cash basis of accounting, the accounts payable functionality in QuickBooks can be a useful tool when there is a desire by a parish to manage unpaid bills within the accounting software. When received, unpaid bills (if valid) are recorded in QuickBooks, allowing for real-time view and analysis of outstanding bills for cash flow and decision making purposes.

By managing accounts payable within QuickBooks, financial reporting to the Pastor and Finance Council can be improved by displaying expenses incurred but not yet paid. Reporting material unpaid bills on financial reports internally will only improve transparency. Managing accounts payable within QuickBooks will assist a business manager in the bill-paying process, as all unpaid bills will be able to be reviewed at once within QuickBooks when checks are to be written.

As stated earlier in this manual, because QuickBooks allows a user to easily switch between the accrual and cash basis and because files are defaulted to the cash basis, the financial information we export from your QuickBooks file(s) will remain consistent with the other parishes while allowing you to use this accrual-based functionality.

Enter Bills



As you can see from the displayed ‘Create Bills’ screen in QuickBooks, there are many fields to consider when entering a single AP bill. When a typical bill is recorded, the accounts payable account selected will be increased by the bill total (the amount due from the parish, a liability, is increased) while the corresponding expense account(s) will also be increased.

The creation of an AP bill is intended to record an incurred expense (or in some cases, payment of a liability), as even though payment has not yet been made, the expense is recorded in the time period it is incurred. Again, as your QuickBooks file is defaulted to report on the cash basis, the recording of such a bill would have no effect on the balance sheet or income statement (without changing the reporting basis on a given report).

When creating a bill:

--A vendor will always need to be selected. When a bill is created for a particular vendor, that vendor’s record is updated and the balance due is changed.

--The account selected in the ‘Account’ field on top is the AP account that will be increased upon the bill being recorded. This field is only present if at least one account has been added to the QuickBooks file with the account type of ‘Accounts Payable’ (example: School Expenses Payable). If no AP accounts have been added, no choice is given and the bill created will increase the QuickBooks-created default ‘Accounts Payable’ account.

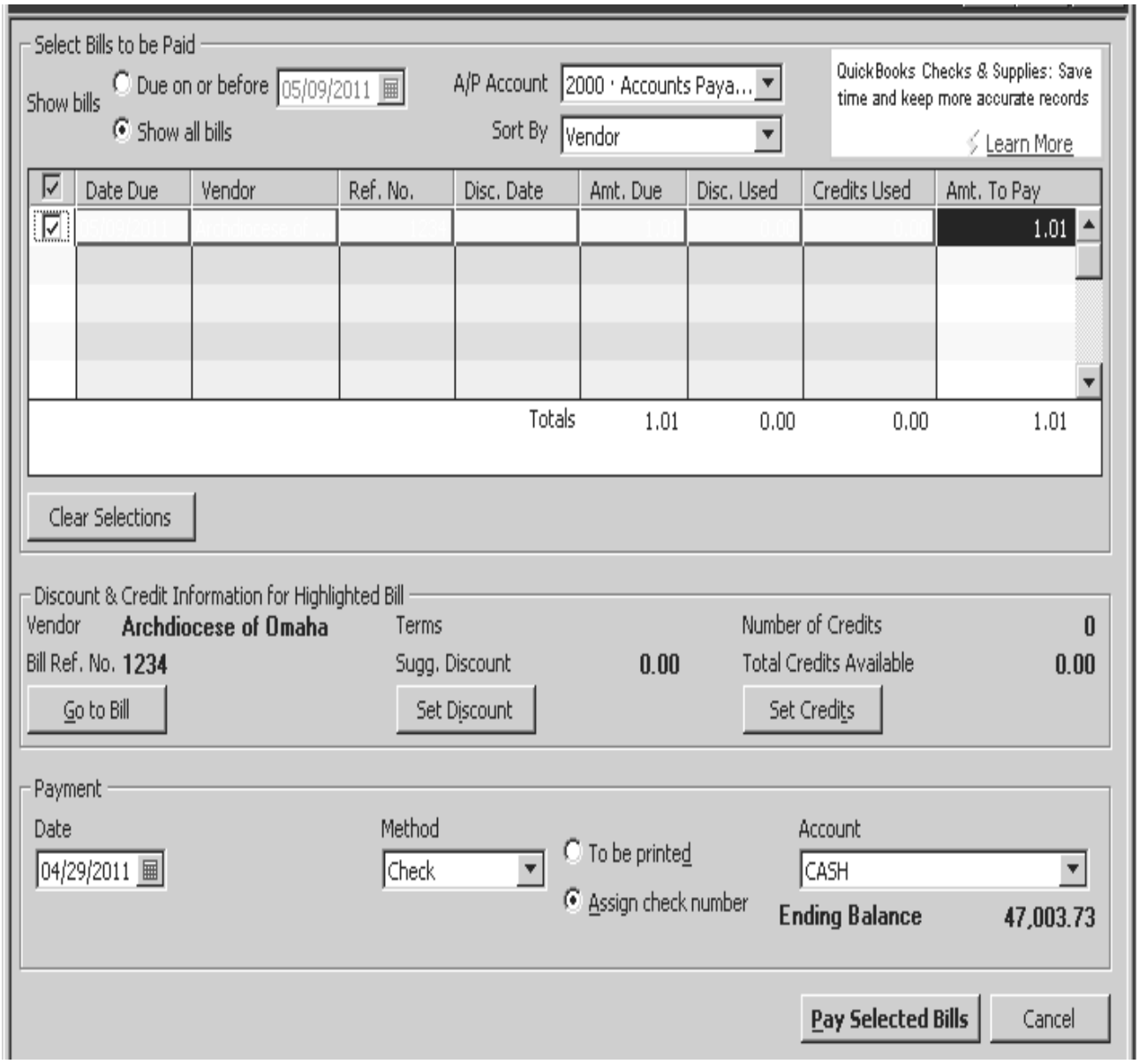
--The majority of the information to be filled out is self-explanatory and can be taken directly from the unpaid bill. The bill ‘Date’ will be the date printed on the vendor invoice or statement. The ‘Ref. No.’ will be the invoice number, if there is one. The ‘Bill Due’ will be date the bill is due (if no due date given, it can be assumed to be 30 days). The ‘Memo’ allows for a brief description of the bill being paid.

--‘Terms’ on the bill is a dropdown menu that allows a user to choose the terms of the bill, rather than choosing a particular due date in the ‘Bill Due’ field. You can add any number of terms to be selected, from ‘Due on Receipt’ to Net 30 (due in 30 days). Choosing one of the terms will automatically populate the due date based on the term selected and the bill date.

--Under the ‘Expenses’ tab, the information to be filled out is identical to the information in the ‘Write Checks’ window. This makes sense, as the only difference between a created AP bill and a recorded check to a vendor in QuickBooks is that the bill is crediting a liability account, while a recorded check is crediting (decreasing) a bank account. The information under the ‘Expenses’ tab is where you will record the applicable expense account(s) and class(s) for the incurred expense.

--Once a bill is saved in QuickBooks, the accounts payable section of the balance sheet is increased, representing an increase to a parish’s liabilities. When a bill is paid, because the expense was recorded with the creation of the bill, the payment simply decreases the accounts payable section of the balance sheet while decreasing a bank account. Using accounts payable simply adds a step in the process, an important step in reporting and cash management.

Pay Bills



Once bills are created, payments made must be properly applied to unpaid bills. This function in QuickBooks is referred to as 'Pay Bills,' and this must be properly understood by the user if accounts payable is to be used correctly.

Typically, when checks are recorded in QuickBooks to pay bills, the 'Write Checks' function is used. In order for QuickBooks to correctly recognize that a bill is being paid, when accounts payable bills are to be paid, you must use the 'Pay Bills' function. If done correctly, all financial reports and vendor records will remain accurate without worry.

<u>If you attempt to record a check to a vendor who has an unpaid bill associated with them using the 'Write Checks' function, QuickBooks will warn you of what you're doing, as recording it this way will not correctly apply the payment against the corresponding AP bill. The warning from QuickBooks will be a pop-up window displaying:</u>

When paying bills:

--By clicking ‘Pay Bills’ under the ‘Vendors’ tab, you will be taken to a screen where QuickBooks asks you to select the bills you want to pay. You can choose which bills to shown on this screen by choosing a date in the ‘Due on or before’ calendar field, or you can select ‘Show all Bills.’

--If you have only one established accounts payable account, QuickBooks will display all unpaid bills, dependent only on if you selected a due date range. If you have more than one accounts payable account, you’ll need to select an A/P account from the dropdown to display unpaid bills.

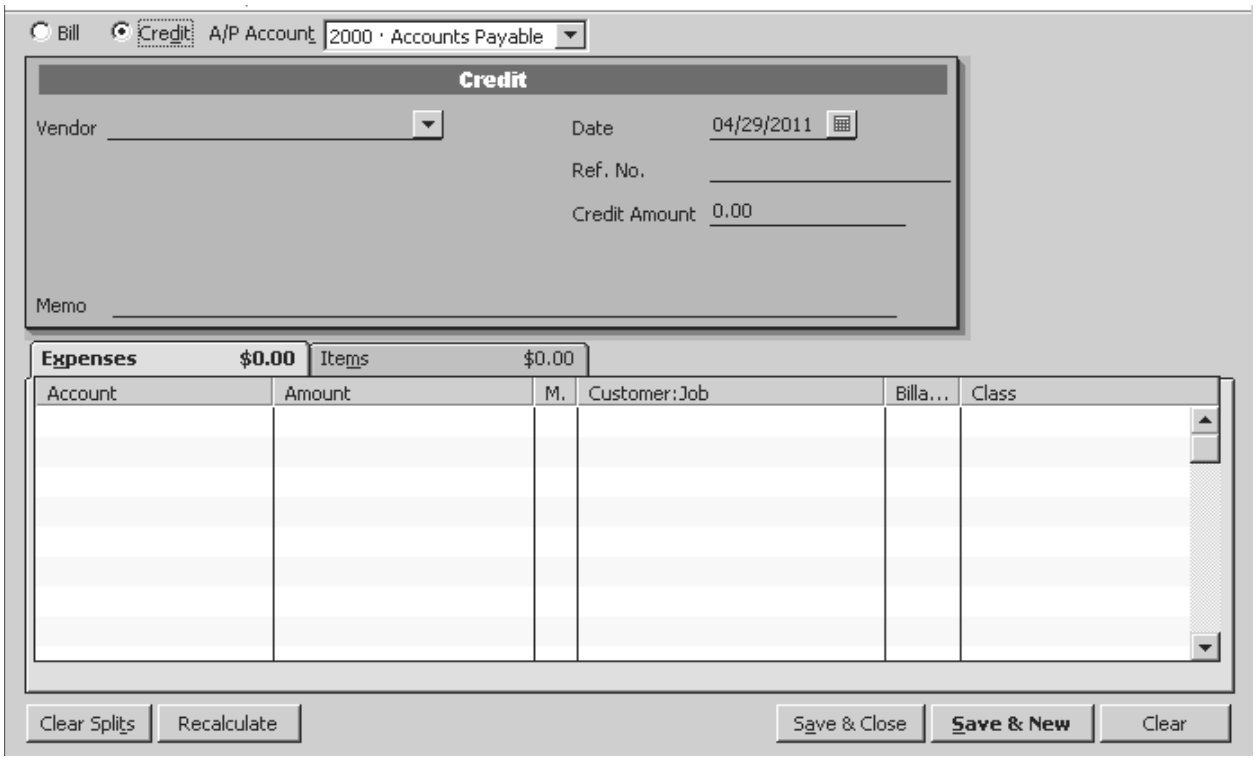
--In the ‘Sort By’ dropdown, you’ll be able to select the order in which QuickBooks displays the unpaid bills. You can sort the unpaid bills by vendor, due date, amount due, or discount date.

--Once you have the unpaid bills display as you’d like, you’re ready to select which bills you’d like to pay. There are empty check-boxes next to each invoice line, and you can simply click on the box of a given line to select that bill to pay. Below the displayed unpaid bills is a box titled ‘Select All Bills’ which will check all empty check-boxes.

--Whether paying one bill or multiple bills, the bottom portion of the ‘Pay Bills’ screen will be used to select payment date and bank account. You’ll notice that when a bill is selected to be paid, the bank account’s ending balance will change to allow a user to view how much remains in a given account that can be used to pay bills. Similar to the ‘Write Checks’ function, you’ll select the payment date (check date), payment method, whether a check is to be printed from QuickBooks or assigned a check number, and the bank account in which bill(s) will be paid.

--Once you’ve selected all bills to be paid, you’ll click ‘Pay Selected Bills’ to proceed in the bill paying process. If printing checks from QuickBooks, you’ll then be directed to where you can print the checks.

Credits



Occasionally a credit memo will be issued by a vendor for reasons such as overpayment or a refunded item. The creation of a credit in accounts payable basically works like a bill, but in reverse. The accounts payable account selected will be debited (decreased), while the normally debited account (typically an expense account) will be credited.

When a credit needs to be entered in QuickBooks, you'll actually go to the 'Enter Bills' function. At the very top of the 'Enter Bills' screen there are two radial buttons that can be selected, with it always defaulted to 'Bill.' If you click 'Credit,' the screen itself changes slightly allowing for a vendor's credit memo to be entered.

From here, you'll enter all applicable information such as credit date, reference number, amount, and a memo describing the credit. Under the expenses tab, you'll enter the applicable account and class, typically the expense account that was originally selected when the related bill (and product or service) was initially paid. Crediting such an expense account will decrease that expense on the profit & loss statement, as such an overpayment or return should be reduced from that expense.

This section discussing the accounts payable functionality in QuickBooks is not all-encompassing, but is meant to serve as an overall guideline on the basics of use. If you do use this functionality and need further instruction on specifics, please contact the Chancery Finance Office.

PAYROLL LIABILITIES

The payroll process will be discussed extensively later in this manual in the PAYROLL* section. This section focuses on the liabilities that are created when processing payroll and what they represent.

Payroll liabilities are created from withholdings from employees' paychecks, such as FICA taxes (Social Security and Medicare taxes), federal and state taxes withheld, health insurance premiums, flexible spending account deductions, 403(b) contributions, and garnishments. Payroll liabilities are also created from the employer side, such as FICA taxes, health insurance premiums, 403(b) matching or pension funding, and other employee benefits funded by the employer.

Payroll liabilities are created and paid in different ways, depending on how your parish processes payroll.

--If you outsource your payroll to be processed by a payroll company, your liabilities and liability payments will be reported to you for your input after each pay period. Some liability payments will not be paid by your payroll company (employee benefits, such as health insurance premiums), so paying such liabilities will be the only work involved on your end aside from inputting the payroll from your payroll company's report.

--If you pay employees using QuickBooks payroll, payroll liabilities are automatically created upon the issuing of paychecks based on your setup of payroll and employees. Liabilities are paid using liability checks in QuickBooks, which allows QuickBooks to know liabilities have been paid for reporting purposes.

--If you choose to process payroll manually and record paychecks in QuickBooks after manual calculation, you'll need to calculate and record all payroll liabilities and pay such liabilities using the normal 'Write Checks' function. It is highly recommended that if you currently calculate payroll manually, that you contact the Chancery Finance Office to be added to our QuickBooks payroll subscription (at no cost to your parish) to ease the process.

Without getting too detailed on the payroll process, it is important to know how payroll liabilities are being created when paychecks are issued. When an employee is paid, the amount owed for a certain time period, before any taxes or deductions are withheld, is the *gross* pay. The gross amount earned by the employee is what is expensed by the employer, as this is truly what the employee is being paid. The employee's *net* pay is the amount the employee receives via paycheck or direct deposit. The difference between gross and net is the employee's pay that is not being paid to the employee directly, such as the withholding of taxes on the employee's behalf, employee-portion of the monthly health insurance premium, and the amount the employee is choosing to withhold for deposit into a retirement vehicle.

The payroll liability accounts established in the official chart of accounts are specific enough for taxes (we encourage you to use each individual liability account for each type of payroll tax), but sub-accounts can be added if needed for other deductions and benefits. If two employees have deductions for garnished wages, you can add sub-accounts for each garnishment type to make

clear how much is owed to each payee. As another example, if your parish offers a supplemental health insurance benefit, you can add sub-accounts to represent basic health insurance premiums and the supplement premiums.

Payroll liability account balances should be routinely checked for accuracy, as these liabilities can be the easiest to be off in balance. After payroll taxes and other deductions have been paid by the parish, payroll liabilities should generally show a $0.00 balance. Any negative account balance should be researched, as this would imply over-payment. Any balance shown should be able to be easily verified as being owed.

**The PAYROLL section will be added to this manual at a later date.*

ACCOMMODATION ACCOUNT

An accommodation account is a liability account established to temporarily record money collected which will later be paid out to a separate entity. **The money represented in this account does not benefit the parish directly in any way.**

An example of what this account can be used for is if your parish receives a check that is payable to the parish, but all or part of the check amount is actually meant for another organization. If such a check is deposited, all or part of the amount of the check will credit (increase) the accommodation account. This will appropriately create a temporary liability balance that is owed by the parish while excluding the deposited money from the profit & loss statement, as it is not income to the parish.

Another example of an accommodation account use is if your parish accounts for the mass stipends bank account in QuickBooks. Deposited funds represent stipends paid to a certain priest, not to the parish, so such a deposit would credit a liability account (payable to the priest) rather than an income account (as it is an individual priest's income).

One example of what **NOT** to use this account for is a restricted donation. Historically, this has been an area commonly accounted for incorrectly. If your parish receives a donation specific to a certain cause or purchase (such as purchase of technology or furniture) and the donation is accepted, the fact that it's restricted does not mean that it's not income. It is income, as it benefits the parish. Such funds will need to be recorded against a revenue account, and should not affect the accommodation account.

When the accommodation account is credited upon recording a deposit, it (a liability account) is increased to represent an amount due to be paid out later. When a check is written to pay out funds represented in the accommodation account, it is important to choose the accommodation account when recording the check (doing so decreases the accommodation account payable).

If the check was mistakenly recorded against an expense account, the balance represented in the accommodation account would remain there, distorting the financials by:

- Showing the parish has this liability due, which was already paid.
- Increasing the total expenses on the profit and loss report, thus reducing net income or increasing net loss.

Aside from mass stipends, transactions that affect the accommodation account should generally be rare. When such a rare transaction does occur, the liability created should be paid out almost immediately, as the funds do not belong to the parish. The accommodation account balance should be easy to account for if not $0.00, as very few transactions should affect the account. The balance shown in this account should reflect what is truly owed, so its balance should be reviewed continually to ensure no errors have been made.

Mass Stipends

A separate bank account is required for mass stipends. If the bank account is established using the tax identification number of the parish, you have the option of accounting for the account within QuickBooks along with all other assets. Such an account is unique in nature, as any funds within the account do not belong to the parish. The stipends are paid to individual priests, so if accounted for in QuickBooks, the parish's accounting software is simply serving as a tracking mechanism and the parish is a pass-through. If mass stipends are tracked in QuickBooks, it is recommended that a sub-account be established under the accommodation account to clearly identify all deposited stipends payable. **Deposited mass stipends should NOT be recorded as income to the parish.**

Even though the parish is a pass-through, if the mass stipends bank account is tracked in QuickBooks, such payments to priests should not be reported as income from the parish on Forms W-2 or 1099-MISC. It is the responsibility of each priest to report such income on their individual tax return.

SPECIAL COLLECTIONS

Annually, each parish is required to initiate a collection for each of the purposes designated by the U.S. Conference of Catholic Bishops according to its published schedule. These collections are to be made using a separate envelope to maintain segregation from regular collections.

Proceeds from these collections will be remitted to the Chancery Finance Office and made payable to the Archdiocese of Omaha, except for the World Mission Sunday and Mission Cooperation collections, which should be made payable to the Propagation of the Faith. Collection proceeds payable to the Propagation of the Faith should never be combined in a single payment with other collection proceeds.

Collection proceeds should be paid within six weeks of the published date of the special collection. After remitting payment of a special collection, if additional funds are collected they can be retained and paid with next year's collection as long as the special collection liability account balance is less than $100.00.

Deposited funds from special collections are credited against the established SPECIAL COLLECTIONS liability accounts (accounts 2240 – 2254). All established accounts are titled specific to individual collections, with the exception of account 2250, 'Special "One-Time" Collections.' Account 2250 should be used for one-time collections held for another entity, such as the USCCB 2010 Haiti collection.

When a deposit is recorded in QuickBooks, the funds from a special collection will be credited to one of the 2200 liability accounts, representing an increase in liability to be paid out later. It is important to be precise in money counting and tracking to ensure that all special collection proceeds are properly deposited and recorded.

When a check is recorded to distribute funds from a special collection, the account debited is unique to other liability transactions, as a **contra-liability** account is used. When reducing a liability, you normally would debit the same account initially credited. Contra-liability accounts were established for special collections to provide transparent reporting with such collections. Such contra-liability accounts are the CHANCERY PAYMENTS liability accounts (accounts 2340 – 2354).

- A contra-liability account has a debit balance and offsets the credit balance of the corresponding liability.
- Even though you will debit the contra-liability account rather than the original special collection account that was credited, the two balances will still net to zero.
- By debiting the contra-liability account rather than the original liability account, it will show each collection and what was then distributed on the balance sheet.

Transaction Example

As an example, your parish collects and deposits $1,240.00 for the 'Peter's Pence' special collection. All designated funds in the applicable deposits are credited to account **22**44. When you are ready to remit payment from this collection, you debit account **23**44. (Each special collection will have the same last two digits of its corresponding liability and contra-liability accounts, with the first two digits, 22 & 23, distinguishing between liability and contra-liability).

SPECIAL COLLECTIONS		
2244	Peter's Pence	$1,240.00
CHANCERY PAYMENTS		
2344	Peter's Pence	-$1,240.00
TOTAL LIABILITES		$0.00

The special collection liability reports the credit balance (liability owed), but the contra-liability account shows the debit balance (liability paid). The special collection amount is easily viewed, while reflecting the true liability balance (in this case, $0.00).

Annual Adjusting Entry

Annually, at the start of the new fiscal year, a journal entry should be made to clear out the special collection liabilities and contra-liabilities for all completed transactions. Such an entry should be recorded and dated in the first week of July to give the balance sheet a clean look to begin the new fiscal year as the accounts are reset to zero.

If no adjustment is ever made, the collection and payment sides will continue to increase over the years, netting to reflect the true liability owed but not allowing for a balance sheet view of the current year's collection. Contra-liabilities are being used so that a balance sheet can display current-year collection amounts for your internal reporting and for Chancery-level reporting.

Failure to adjust the accounts annually will negatively affect the consistency of the parish-wide reporting mechanism by distorting current year collection and payment amounts.

The annual journal entry will consist of debiting all of the SPECIAL COLLECTIONS liability accounts in the amount that has been paid out and crediting all of the CHANCERY PAYMENTS contra-liability accounts to clear them out. What will remain in the SPECIAL COLLECTIONS liability accounts, if anything, is the amount of money collected but unpaid. In a rare situation, a CHANCERY PAYMENT contra-liability account may be left with a small debit balance only if a special collection remittance was accidentally overpaid.

To illustrate, below is an example special collection liability section and annual adjusting journal entry to show what the entry looks like and how it affects the balance sheet. The illustration does not include all special collection liability accounts, but the process is the same no matter how many collection accounts are used in a given year.

SPECIAL COLLECTIONS

2240	Seminary	$1,872.25
2241	Home & Foreign Missions	$981.00
2242	Catholic Relief Services	$1,142.37
2243	Communications	$633.75

CHANCERY PAYMENTS

2340	Seminary	-$1,862.25
2341	Home & Foreign Missions	-$981.00
2342	Catholic Relief Services	-$1,142.37
2343	Communications	-$608.75

From the above example, the Home & Foreign Missions and Catholic Relief Services liability accounts net to zero, as no donations for these collections were collected after payment had been remitted to the Chancery. The Seminary and Communications liability accounts do not net to zero, as in both cases, donation(s) came in for these collections after payment had been remitted. The parish could have sent in a second remittance payment for these two collections after more donations were received, but because of the immaterial amounts, the parish chose to retain the donations and add the funds to the next year's collection remittance.

The annual adjusting entry:

Previous Next Print... Find History Reverse Reports

Date 07/01/2011 Entry No. 1234 Adjusting Entry

Account	Debit	Credit	Memo
SPECIAL COLLECTIONS:2240 · Seminary	1,862.25		annual adjusting entry
CHANCERY PAYMENTS:2340 · Seminary		1,862.25	annual adjusting entry
SPECIAL COLLECTIONS:2241 · Home & Foreign Missions	981.00		annual adjusting entry
CHANCERY PAYMENTS:2341 · Home & Foreign Missions		981.00	annual adjusting entry
SPECIAL COLLECTIONS:2242 · Catholic Relief Services	1,142.37		annual adjusting entry
CHANCERY PAYMENTS:2342 · Catholic Relief Services		1,142.37	annual adjusting entry
SPECIAL COLLECTIONS:2243 · Communications	608.75		annual adjusting entry
CHANCERY PAYMENTS:2343 · Communications		608.75	annual adjusting entry

The SPECIAL COLLECTIONS and CHANCERY PAYMENTS liability account balances after the annual adjusting entry:

SPECIAL COLLECTIONS

2244	Seminary	$10.00
2245	Home & Foreign Missions	$0.00
2246	Catholic Relief Services	$0.00
2247	Communications	$25.00

CHANCERY PAYMENTS

2340	Seminary	$0.00
2341	Home & Foreign Missions	$0.00
2342	Catholic Relief Services	$0.00
2343	Communications	$0.00

After recording the annual adjusting entry correctly, the SPECIAL COLLECTIONS and CHANCERY PAYMENTS liability account balances should only reflect amounts owed or, in a rare instance, a prior fiscal year's collection overpayment. <u>After the adjusting entry has been made, any remaining balance should be added to (or possibly subtracted from) the next collection's remittance payment.</u>

LONG-TERM LIABILITES

Long-term liabilities are liabilities that are due to be paid in more than one year. Such obligations typically arise from major expenditures, such as acquisitions of plant assets. Types of long-term debt incurred are mortgage and construction loans, lines of credit, and bond issues.

At any given time, a majority of parishes will not have any long-term liabilities, as incurring such debt is primarily used to finance new construction, capital improvements, or the purchase of a capital asset. Long-term liabilities are relatively few in number but often involve large dollar amounts.

Long-term liabilities have their own section of the balance sheet. Accounts 2301 – 2303 are to be used to record debt other than that owed to the Deposit & Loan Fund (Account 2304). The account name 'Due to D&L Fund Loan' cannot be modified in any way. If applicable, each individual obligation should be its own account in QuickBooks (two different obligations should not be combined within the same account in QuickBooks).

Types of Long-Term Debt

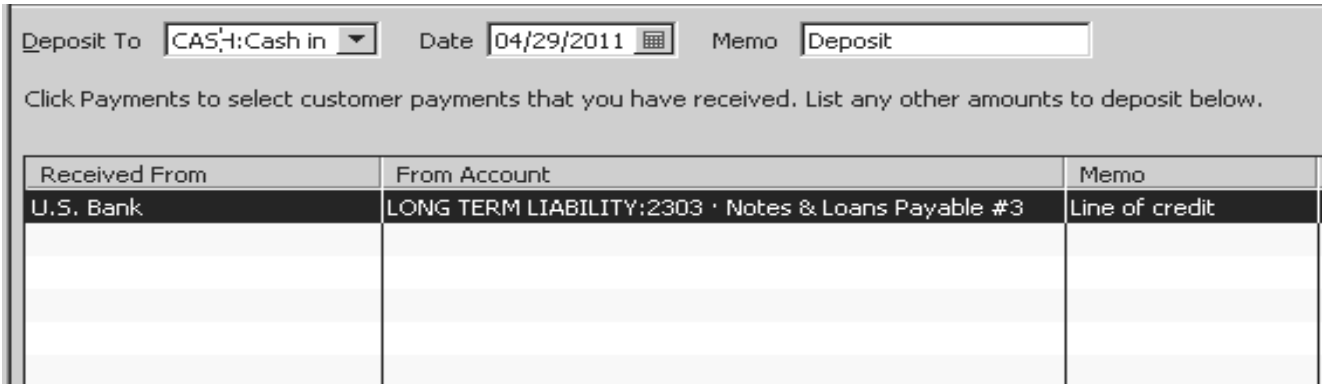
- The most common incurred long-term liability is a loan, or note payable. Money is borrowed and a promissory note is signed, thus promising to pay back the borrowed funds along with accrued interest. A loan's term, interest rate, and type of repayment schedule will vary, thus affecting the amount owed each payment and how much the financing will cost. A typical mortgage or construction loan will be amortized over the life of the loan, and payments made will pay interest and principal. Another loan type is an "interest-only" loan which allows a borrower to only pay accrued interest for a period of time, with the principle balance remaining unchanged until the end of the interest-only term.

- A line of credit is a credit source extended to a business that represents readily available credit that can be borrowed against at any time. It can be compared to a credit card, as interest accrues only against the used credit portion. Like a credit card's credit limit, a line of credit has a credit ceiling that represents the maximum amount that can be borrowed. The borrower can draw on the line of credit at any time, thus providing flexibility which can be useful for some capital projects. A line of credit can be classified as a demand loan by the issuer, which means that any outstanding balance would have to be paid immediately at the financial institution's request.

- Bond issues are uncommon for parishes, but can be a viable option in certain situations. The issuance of bonds payable is a technique for splitting a large loan into many transferable bond units. Each bond represents a long-term, interest-bearing note payable, usually in the amount of $1,000 or some multiple of $1,000. The bonds are sold to the investing public, enabling many different investors (bond-holders) to participate in the loan. The bond issuance process is complex and not always an option. Any questions regarding the process or the possibility for your parish to issue bonds can be directed to the Archdiocesan Finance Director.

Deposit of Borrowed Funds

When a loan is incurred or a line of credit is used, the funds received will be recorded in QuickBooks and will not affect the income statement. The borrowing of money is not income, so the deposit recorded will increase (credit) the liability side of the balance sheet. (Cash flow not affecting the income statement will be discussed in detail in an advanced topic that will be added in the future). Below is an example image from QuickBooks showing a deposit being recorded, representing a long-term liability being established:



The deposit of funds from a new loan or mortgage will typically be the entire loan amount. The applicable bank account will be increased by the loan amount until that money is spent. For a line of credit, the liability will only be increased by the amount received, not by the entire credit limit.

If the borrowed funds are never received, and instead are forwarded directly to the selling party or vendor, the recording of the long-term liability will done recorded via journal entry, debiting the applicable expense account (or if land is being purchased, the applicable fixed asset account). Such an entry will record the long-term liability, while also recording the expense that the borrowed funds are financing, thus simply skipping the step of the borrowed funds being deposited and then spent.

Repayment of Borrowed Funds

The repayment of borrowed funds can be accomplished in many ways, including monthly loan payments, interest only payments followed by a balloon payment, or partial payments of a line credit when funds are made available. No matter the strict or flexible repayment schedule on borrowed funds, the accounting for such payments needs to take into account the principal and/or interest portion of the payment.

The repayment of principal will reduce the recorded long-term liability; the interest paid will increase the interest expense account and reduce net income.

- With a monthly loan payment on a basic amortization schedule, each loan payment should be recorded by allocating the principal and interest portion according to the schedule.

- With a monthly D&L loan payment, each loan payment should be recorded allocating the principal and interest per the amortization schedule, and those recorded payments should

be adjusted when quarterly D&L statements are sent out to reflect the true P/I portions based on when payment is received by the Chancery Finance Office.

- With an interest-only payment, the recorded transaction should not affect the liability account and should only debit the interest expense account.

- With a principal-only payment, the recorded transaction should not affect the income statement but should only reduce the applicable long-term liability account.

With the proper recording of debt payments, the balance sheet should remain accurate (reflecting accurate liability balances) and the income statement should remain accurate (reflecting interest paid as an expense).

EQUITY

Equity, or net assets, is the third section of the balance sheet and can be defined simply as net worth. It is part of the balance sheet equation of Assets = Liabilities + Equity, or:

Equity = Assets – Liabilities. Equity represents assets (owned) less liabilities (owed).

The equity section of a parish's balance sheet will be a lot simpler than that of a publicly traded company, as no shares of ownership are issued and very few transactions will affect the equity section. So, what does affect the equity section of the balance sheet?

- **Retained earnings** represent the increase (or decrease) in equity that has accumulated over the years as a result of profitable (or non-profitable) operations. At the end of a fiscal year, there will be a net profit or loss from operations, and this amount is then transferred to the retained earnings section of the balance sheet. If profit is realized at the end of a fiscal year, equity (retained earnings) is credited (increased), as the profit has caused an increase in asset(s). QuickBooks automatically transfers the net income (or loss) to the equity account designated as the retained earnings account after the end of a fiscal year.

- The unique nature of how property, plant & equipment should be accounted for by a parish was discussed earlier in this manual. When adding or adjusting a capital asset on the balance sheet using the Catholic Mutual Group insured value, an equity account (not the account tied to retained earnings) will be used when recording the journal entry so that the income statement is not affected by this transaction (as the insured value is for informational purpose only). It is recommended that a 'Plant Fund' equity account be added, or that the 'Opening Balance Equity' account is used when recording such transactions.

- In a rare instance, an adjusting entry using an equity account will need to be made that will not affect the income statement (so that the current fiscal year income statement is not distorted by a transaction that has little to do with the current fiscal year). Such an entry will be rare and should always be discussed with the Pastor and with the Chancery Finance Office. Some examples of such adjusting entries are:

    - Adding a bank account, investment account, or endowment account to the balance sheet that was previously 'not on the books.'
    - Recording the change in value of a bank account or investment account that has been neglected for some time. Such an adjustment would adjust the account's balance to the end of the previous fiscal year, with all current FY changes recorded as normal within the income statement.
    - Correcting a liability account's balance that contains errors from previous fiscal years. If it is discovered that a liability's balance is not accurate due to errors made in prior years, the balance can be adjusted to reflect the true amount owed by debiting or crediting an equity account. As another option, a miscellaneous revenue or expense account can be used in the adjustment if the Pastor desires such an adjustment to be reflected in the current FY's income statement.

The above adjusting entry examples will be rare occurrences and one-time adjustments. Going forward after such an adjusting entry, a parish should never have to adjust the account's balance against equity again, as all active balance sheet accounts should be accounted for in a timely fashion.

Aside from the transfer to retained earnings, PP&E adjustments, and rare one-time adjusting entries, no transaction should ever directly affect an equity account.

INCOME - DETAILED DEFINITION & RECOGNITION

Income, or revenue, is the increase in assets from sources such as weekly donations and investment earnings, which directly benefit the parish. Income will typically be received as cash, via currency, check, electronic transfer, or debit/credit card. Income can also be received as non-cash, such as donated goods and services and the transfer of stock ownership.

Income represents one of the two major components of the income statement (profit & loss statement), which reports net income or loss from parish operations over a specified period of time. The income statement shows a parish's income, primarily weekly donations, fundraising, and possibly school tuition, from which the parish's expenses, or operating costs (salaries & benefits, utilities, etc…), are subtracted.

<u>Income should never be recorded twice (income is only earned once; if used in a future fiscal period, funds are not new income but spent, and possibly transferred, parish assets). When income is recorded in one account and at a later time part or all of those funds are transferred to another account for use, income should not be recognized again. A bank transfer is simply moving funds from one asset to another.</u>

Not all money received will be recorded as income (as seen in the liability section of the balance sheet). Donations received that will be forwarded to another entity (never assets of the parish), such as the special collections taken up annually, are recorded to a liability account. As another example, if mass stipends are deposited into a parish's bank account, this does not represent income to the parish, as the stipend is being paid to the individual priest. Such a deposit would also be recorded to a liability account.

Gross vs. Net

Income is recorded as its **gross amount and not net of related expenses**, as revenue received or earned is received or earned wholly, regardless of how much or in what manner the revenue will be spent.

To illustrate, a fundraiser brings in income and incurs expenses, resulting in more income than expenses to help support the parish. If the **net** proceeds are recorded as income, it will appear via the income statement that the fundraiser brought in the **net** amount while costing nothing to put on. The affect on the bottom line (revenue – expenses = **net income**) would remain the same, but the income statement would be distorted by not showing the operation in its entirety.

As another illustration, tuition earned is earned in its entirety, despite any discounts or internal scholarships granted. Based on established tuition rates, a given family owes a certain amount for the school year. If then a discount is applied or an internal scholarship is awarded, thus decreasing the amount owed, that decrease would be recorded as an expense (not as a reduction in income). The tuition is still 'earned,' and the discount or scholarship that reduces the amount owed is part of the operation's costs. As in the above illustration, the affect on the bottom line would remain the same, but the income statement would be distorted by not showing tuition revenue in its entirety.

(The only allowable exception to this is SCRIP fundraising, as the purchase of discounted gift certificates is not truly an expense, but rather the transfer of cash to cash-equivalent gift certificates). Because of this, only the net proceeds are recorded as SCRIP revenue.

Recognition

Reporting on the cash basis, income is reported when received, whether as cash or other donated item or service. Income earned but not-yet-received would not appear on the cash-basis income statement. As discussed earlier in this manual, QuickBooks allows reports to be modified between cash and accrual basis reporting easily. This allows your parish to use QuickBooks to record and manage both accounts receivable and accounts payable within QuickBooks while allowing the Chancery Finance Office to pull reports on the cash basis.

- If your parish does not utilize the accounts receivable functionality within QuickBooks, income recorded via deposits and journal entries will always be on the cash basis. The 'Summary Reporting Basis' default option should always be set to 'Cash,' and reports should never have to be modified between cash and accrual for income purposes.

- If your parish does utilize the accounts receivable functionality within QuickBooks, income will be recorded in QuickBooks on both the accrual and cash basis. The 'Summary Reporting Basis' default option should always be set to 'Cash,' but reports can be modified to switch the reporting basis so that all earned income, both received and outstanding, is reported.

Income should always be recorded in a timely manner. Your parish's current assets will then be accurately represented in QuickBooks at all times. Also, income statement reporting will always be as accurate as possible no matter what time of the month or quarter reports are viewed internally or by the Chancery Finance Office.

The recording of income, whether as a deposit or journal entry or as an accounts receivable payment, should be dated in QuickBooks when the funds are deposited or when the donation of an item or service occurs.

UNRESTRICTED VS. RESTRICTED DONATIONS

The most common income source for a parish is a cash donation in some form. A donation can also be a transfer of corporate stock, the donation of a vehicle, the contribution of professional services (though not tax-deductible), along with many other examples.

As donations are the primary source of income, it is important to understand the difference between unrestricted and restricted donations.

Unrestricted

An unrestricted donation is a gift given without any donor restrictions. The gift is given with the intent that the funds will be used for the general mission of the Church.

All parishes incur operating expenses and have bills to pay. Unrestricted donations are the main source of income to meet such obligations, which include, but are not limited to, personnel costs, supplies, maintenance, utilities, and AAF tax.

Restricted

Restricted donations can be broken down into two types: temporarily restricted and permanently restricted.

- Temporarily restricted donations have donor-imposed restrictions that can be fulfilled in one of two ways: passage of a defined period time (time restriction) or by performing defined activities (purpose restriction).

- Permanently restricted donations are restricted by the donor for a designated purpose or time restriction that will never expire. The intent is that the parish will utilize the interest and investment returns, such as with an endowment.

It is strongly suggested that careful consideration be given to accepting any permanently restricted donations. Accepting such a donation results in a lengthy commitment as well as perpetual management. Any questions may be directed to the Chancery Finance Office.

Temporarily restricted donations should only be accepted by a parish with the consent and understanding of the pastor/administrator. When a temp. restricted donation is received, it is the responsibility of the parish to track the funds or item(s) until the restriction is no longer in place (purpose fulfilled or time elapsed).

Restricted donations are still recorded as income, even though the direct benefit might not be realized for some time. The restriction put in place does not change the fact that the parish will directly benefit from the donation at some time in the future.

Example of a Restricted Donation

Restricted donations have created confusion over the years in regards to financial reporting and the proper accounting method. Below is an example that can be used as a resource for like-transactions, whether restricted by time or purpose:

- A $2,000.00 donation is received and accepted which is to be used only to purchase/improve IT equipment at the parish. The initial deposit is recorded in QuickBooks as contribution income, and until those funds are spent, the funds must be tracked as restricted so that they are not misspent. When IT equipment is purchased, whether in the same fiscal year or a future one, the purchase is expensed appropriately and the tracking of the donation is complete (if all of the restricted funds were used). Until all of the funds are spent, it should be easily determinable the amount remaining and what, specifically, the restricted were already used for.

The restriction could have been released within a week or even years from the donation date; the timing is irrelevant. A restricted donation is different type of income, but it is still income. The important thing is to know how to track such restricted funds within QuickBooks and be able to easily produce applicable reports, if desired.

Tracking & Reporting Restricted Donations

As discussed in the earlier in this manual, QuickBooks allows you to track various 'funds' within a single bank account so that a separate bank account is not needed for each designated fund.

When restricted funds are deposited into a parish bank account, the funds can be recorded in QuickBooks using a bank account's sub-account. The overall bank account will still be accurate and reconciled monthly, but the funds making up the bank account's balance can be tracked separately.

CASH
    Cash in Bank - Checking
        1001 . Operating Account
            1001a . Parish - General
            1001b . Athletic Club
            1001c . Technology
            1001d . Fall Festival
            1001e . Ladies Guild

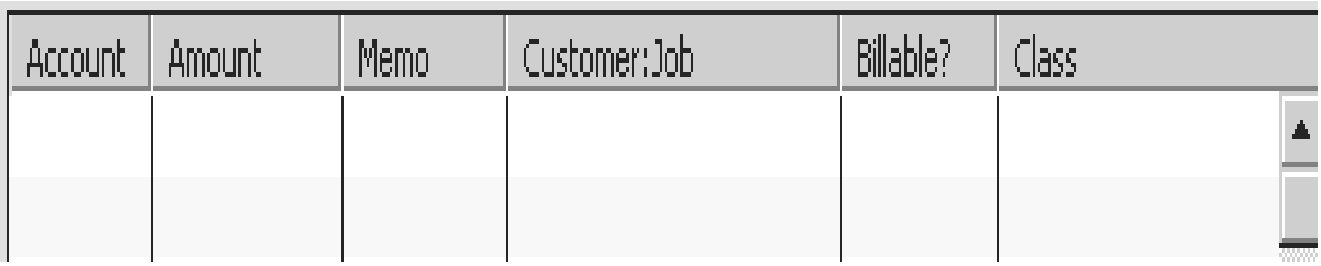
From the above account structure example, the parish operating bank account is made up of several separately tracked funds. If a restricted donation for technology-related purchases is accepted and deposited, it will be deposited in QuickBooks using the 1001c account (the Technology Fund sub-account is increased upon deposit and the bank account itself is increased, simultaneously). When a purchase is made using the restricted funds, the 1001c account will be used to simultaneously decrease the Technology Fund portion as well as the overall bank account.

<u>If managed correctly, you should be able to tell, at any given time, the bank account balance, as well as the separately tracked fund(s) balance.</u>

As restricted funds can be managed and tracked in QuickBooks per the asset sub-account structure as part of the balance sheet, individual transactions affecting tracked funds can be labeled as such and clearly reported on the income statement.

Classes in QuickBooks are assigned to transactions to increase the reporting level capability beyond the chart of accounts. Within the class structure already established, you are free to add any number of sub-classes to increase your income statement reporting level. Such sub-classes are for your own internal reporting within the organization; if your parish needs an event, program, or restricted fund reported on, a sub-class should be added and used.

If classes are used consistently with all transactions affecting the income statement, reporting options are endless and produced easily. You select the applicable class on a transaction line (the very right side of the transaction line), just like you select an account. When an income statement is created / modified, you select the applicable class(s) for the particular report you are producing. Any transaction line that has been coded with the selected class(s) will be represented on the income statement.



Within the established class structure, you can create your own sub-class structure, differentiating between unrestricted and restricted income and expenses (along with adding classes for specific parish programs/events). When restricted income is recorded in QuickBooks, you are then able to accurately report as income while having the ability to report as a different type of income.

A properly used class structure will allow a report to clearly show the amount that the parish has received in contributions over a certain period of time, while labeling a portion of that revenue as 'restricted.' The restricted revenue amount will then indicate within the income statement the portion of contribution revenue that cannot be spent freely on anything needed.

The same class assigning and reporting can be used to account for and report on spent restricted funds (expenses incurred, to be paid for with restricted monies). Therefore, if restricted funds are spent in a future fiscal period after the restricted donations were received, such expenses can be clearly labeled as such to easily explain increased expenses.

Maintaining a class structure and class reporting in QuickBooks will be discussed in greater detail in the Financial Reporting topic of the ADVANCED TOPICS section.*

**The Financial Reporting topic will be added to this manual at a later date.*

INCOME – TRANSACTION LEVEL

Many sources of income are recurring in how and when they are received, such as Sunday collections, school tuition, and interest income. Other income might be periodically received such as bequests, refunds, and endowment addition donations.

It is important to understand the types of income your parish may receive and how such income is recorded. Consistency on the transaction level is also important, as financial reporting will be helpful and practical if like transactions are recorded using the same income account consistently.

Below are income account specifics and detail on the transaction level for both commonly used accounts and accounts that are often misused. Not all income accounts are detailed, as a majority of income accounts are self-explanatory by account name and enough explanation is given on the official chart of accounts.

School Tuition & Fees

(3001) Tuition from Parents: Only payment for a specific student's tuition due for the current school or pre-payment for the coming school year should be recorded against this account. You can add a sub-account (Pre-Paid Tuition) for tuition received for the coming school year, so it can be clearly distinguished as received but pre-paid (unearned at that point).

(3002) Tuition from Scholarship: This account is newly established to give you an official account to record tuition received for a specific student from an awarded scholarship. You can add a sub-account for the Children's Scholarship Fund to specify funds received from the CSF scholarship program.

(3007) Tuition - Past Due: Only payment for a specific student's tuition due from a prior school year should be recorded against this account.

(3009) Subsidies: Only parish funded subsidies which are NOT student specific should be recorded against this account. The subsidy is income, but does not reduce any student's tuition due.

School Income

(3150) Miscellaneous: This account should be used rarely for income that does not fit well with any established income accounts. Any transaction affecting a miscellaneous account should be described in detail in the transaction memo so that it is clear what the transaction represents if there is a question in the future.

(3228) Pre-School: Only fees for a pre-school program should be credited against this account.

(3229) Fees: This account can be used for any school fees that do not fit well with other income accounts. Daycare fees can be credited to this account.

General Contributions

(3030) Sunday Collections – Envelopes: This account name in QuickBooks should not be altered in any way. All donations physically received at weekend Mass in a contribution envelope or by other means and noted as such, should be credited to this account.

(3031) Sunday Collection – Cash & Coin: This account name in QuickBooks should not be altered in any way. All miscellaneous cash donations received at weekend Mass and not noted as to whom the donor should be credited to this account.

(3037) Debt Retirement: Only donations specifically marked by the donor as being restricted for debt retirement should be credited to this account. Sunday collections should never be credited to this account, as unless a donor restricts the funds himself/herself, such donations would credit the 3030 & 3031 income accounts.

(3038) Capital Campaigns: Only donations received as part of a formal capital campaign should be credited to this account. In order to conduct a capital campaign that will bring in $30,000 and over, permission must first be granted by the Archbishop of Omaha.

(3040) Capital Improvements: Only donations specifically marked by the donor as being restricted for capital improvements (building projects and renovations) should be credited to this account. Sunday collections should never be credited to this account, as unless a donor restricts the funds himself/herself, such donations would credit the 3030 & 3031 income accounts.

(3061) Maintenance & Repairs: Only donations specifically marked by the donor as being restricted for maintenance & repairs should be credited to this account. Sunday collections should never be credited to this account, as unless a donor restricts the funds himself/herself, such donations would credit the 3030 & 3031 income accounts.

(3067) Miscellaneous: Donations from individuals which do not fit well with the established contribution accounts can be credited to this account, for example, a donation received in the mail from a non-parishioner.

This account can also be used to record gifts-in-kind (donations of non-monetary goods and services).

- A sub-account can be added for donated goods. If a donation of an item is received and is material enough to record, the donation will be recorded via journal entry, crediting this sub-account of 3057 and debiting the account (most likely an expense account) that would have been used if the item(s) was purchased.

- A sub-account can also added for gifts of services. If a service that would have been requested from a professional or vendor is donated, the donation can be recorded via journal entry. The journal entry will credit this sub-account of 4057 and debit the expense account that would have been used if the service was paid for. To be recognized, the contributed services must:

    - Create or enhance nonfinancial assets (such as constructing a building), or
    - Require specialized skills (such as carpenters, doctors, and accountants) and would normally need to be purchased if not provided by donation.

(The value used when recording gifts-in-kind should be based on market costs, when possible, and estimated appropriately when no value is accessible. A letter acknowledging the tax-deductibility of the gift CAN be given for donated items, but no value should be given, as it's the responsibility of the individual (with the exception of more complex donations, such as motor vehicles and real estate) to value such donations. A letter acknowledging the tax-deductibility of the gift CANNOT be given for donated services, as the donation of time is not tax-deductible. Instead, a letter thanking the donor should be sent without mention of tax-deductibility).

(3068) Scholarships: Donations to be used to grant internal scholarships should be credited to this account. A scholarship donation, recognized as tax-deductible, cannot be intended to benefit a specific student. As a donation (restricted to be used to reduce tuition for students), the donor has no say in who is granted a scholarship from their gift.

Other Operating Revenue

(3080) Endowments (Non-Education): Donations received, restricted for principal additions to an endowment, should be credited to this account. This account pertains to endowments that are non-education in purpose. After deposited, the funds should be transferred to the applicable endowment account as soon as possible.

(3082) D&L Interest Income: Only interest earned from a CD held at the Deposit & Loan Fund should be credited to this account. If interest earned is transferred to the CD's principal at quarter end, it is your responsibility to record the interest earned via journal entry, crediting this account and debiting the applicable D&L investment asset account.

(3083) Stole Fees: If a parish priest chooses to be paid the higher base salary, any stole fees he receives should be given to the parish. The forwarded funds are considered parish income and are unrestricted. Only stole fee income should be credited to this account; mass stipends are income to the individual priests and should not be recorded as income.

(3087) Contributions – Groups & Clubs: This account should be used when a parish group or club receives a donation. The donation is still being made to the parish as one legal entity, but this account distinguishes the donation on the profit & loss statement as being intended for the parish club or group's use.

(3088) Refunds & Rebates: If you receive a refund from a vendor, for overpayment or a returned item, this account should be used if the original transaction occurred in a prior fiscal year. If a refund is received in the same fiscal year, the original expense account used can be credited decreased) instead of recording as income.

(3089) Educational Endowment: Donations restricted for principal additions to an endowment should be credited to this account. This account pertains to endowments that are for education purposes. After deposited, the funds should be transferred to the applicable endowment account as soon as possible.

(3171) Contributions from the Community: Donations received from outside organizations should be credited to this account, distinguishing such donations from parishioners and other individual donors.

(3192) Realized Gain/Loss on Investment: If an investment (non-endowment), such as stock or mutual fund, is sold, the profit or loss (different between sale price and book value) should credited/debited to this account. Such a transaction should be irregular, but using this account will distinguish a true gain or loss upon sale.

(3193) Gain/Loss on Sale of Assets: If an asset (not investment or endowment) is sold, such as a vehicle, land, or equipment, this account should be credited by the amount of sale to show the gain. (Aside from land or works of art, all other purchased assets would have been fully expensed, so once sold the entire amount received would represent a gain).In the rare instance that land or a work of art is sold, the gain (or loss) would be the difference between the sale price and the book value of the fixed asset.

If the asset sold is a fixed asset, it should always be removed from the balance sheet upon sale. Excluding land or a work of art, removing the fixed asset would be accomplished via journal entry by credited the fixed asset account and debiting the Plant Fund equity account. If the sold asset is land or a work of art, the asset would be removed from the balance sheet as part of the entry recognizing a gain or loss.

(3601) Interest Income – Endowments: When an endowment's balance is adjusted after receiving a monthly or quarterly statement, this account should be used to record credited interest/dividends. This account pertains to endowments that are non-education in purpose. An endowment 'class' can be established and assigned to such income so that reports can be generating to exclude such income from a normal operating profit & loss statement.

(3602) Interest Income – Ed. Endowments: When an endowment's balance is adjusted after receiving a monthly or quarterly statement, this account should be used to record credited interest/dividends. This account pertains to endowments that are for education purposes. An endowment 'class' can be established and assigned to such income so that reports can be generating to exclude such income from a normal operating profit & loss statement.

(3194) Unrealized Gain/Loss on Investments: When an investment's (non-endowment) balance is adjusted after receiving a monthly or quarterly statement, this account should be used to record market fluctuations. The market value of an investment can change constantly and for various reasons. Such a gain or loss is temporary in nature (the investment has not been sold), and thus this account is set up as an 'other income' account type in QuickBooks to show as below-the-line.

(3195) Unrealized Gain/Loss on Endowments: When an endowment's balance is adjusted after receiving a monthly or quarterly statement, this account should be used to record market fluctuations. The market value of an investment can change constantly and for various reasons. Such a gain or loss is temporary in nature (the investment has not been sold), and thus this account is set up as an 'other income' account type in QuickBooks to show as "below-the-line". An endowment 'class' can be established and assigned to such income so that reports can be generating to exclude such income from a normal operating profit & loss statement.

Activity & Entertainment Income

(3249) Special Fund Raising Events: Income from fund raising events should be credited to this account. Gross revenue should be credited against this account, with no fund raising expenses netted against it.

(3250) Special Events Non-Fundraising: Income from events held, not to raise funds, should be credited to this account. Parish dinners and funeral lunches are some examples of possible non-fund raising events that may produce income.

(3259) SCRIP Revenue: As discussed earlier in this manual, only the difference between SCRIP cost and face value should be credited to this account. Purchased SCRIP is tracked as inventory, with only the discount received being recognized as income upon sale.

EXPENSES - DETAILED DEFINITION & RECOGNITION

Expenses are the economic costs that a parish incurs through its daily operations, such as personnel costs, utilities, and supplies. Other less recurring expenses include maintenance, legal fees, and purchased equipment.

Expenses form the other major section of the income statement (profit & loss statement), which reports net income or loss from a parish's operations over a specified period of time. The income statement displays a parish's income, primarily weekly donations, fundraising, and possibly school tuition, and subtracts the parish's expenses, or operating costs (salaries & benefits, utilities, etc…).

An expense is typically recorded in QuickBooks by creating an accounts payable bill or by writing a check (if the accounts payable functionality is not utilized). An expense can also be recorded via journal entry or through the bank reconciliation window when adding a bank service charge. The increase of an expense is a debit to an expense account, with the credit side of the transaction typically being an accounts payable account or a bank account.

Not all expended funds will be recorded as expenses. Special collection and payroll liability payments are two examples of the outlay of cash where an expense is not recorded. Another example is the principal portion of a loan payment, as the principal reduction is only repaying those funds that were booked as a liability, so only the interest paid (if applicable) would be expensed.

Recognition

Reporting on the cash basis, expenses are recorded when paid. Expenses incurred but not-yet paid would not appear on the cash-basis income statement. As discussed earlier in this manual, QuickBooks allows reports to be modified between cash and accrual basis reporting easily. This permits your parish to use QuickBooks to record and manage both accounts receivable and accounts payable within QuickBooks, while allowing the Chancery Finance Office to pull reports on the cash basis.

- If your parish does not utilize the accounts payable functionality within QuickBooks, expenses recorded via checks and journal entries will always be on the cash basis. The 'Summary Reporting Basis' default option should always be set to 'Cash,' and reports should never have to be modified between cash and accrual for income purposes.

- If your parish does utilize the accounts payable functionality within QuickBooks, expenses will be recorded in QuickBooks on both the accrual and cash basis. The 'Summary Reporting Basis' default option should always be set to 'Cash,' but reports can be modified to switch the reporting basis so that all incurred expenses, both paid and unpaid, are reported.

Expenses should always be recorded in a timely manner. Your parish's current assets will then be accurately represented in QuickBooks at all times. Income statement reporting will always as accurate as possible no matter what time of the month or quarter reports are viewed internally or by the Chancery Finance Office.

The recording of an expense, whether as a check or journal entry or as an accounts payable bill, should be dated in QuickBooks when the funds are spent or when the expense is incurred.

REIMBURSABLE EXPENSES

Incurred expenses are sometimes reimbursable, especially when two closely aligned parishes share resources. A reimbursable expense is an expense that is at least partially incurred on behalf of another party (one parish incurs an expense, though the expense benefits at least one other party).

When a direct reimbursement is received, the deposited monies represent a decrease in expenses, not income.

If two or more parishes share a priest or another employee, in most cases, only one parish pays the employee directly. The other parish(s) would then reimburse the payee their portion of the salary and benefits (based on the agreed upon cost allocation).

Personnel costs are the most common type of reimbursable expense, but other possibilities include supplies purchased in bulk, fundraising expenses, or even reimbursing an employee for a personal expense paid for by the parish.

Examples

- Parish A pays a priest's salary, health insurance, and pension funding and the priest works 50/50 for Parish A and Parish B. When Parish A pays the salary and benefits, the payments are expensed fully as normal, debiting the personnel expense accounts. When Parish B reimburses their portion, the payment is allocated to the same personnel expense accounts as if they were paying the priest directly. When the reimbursement is deposited by Parish A, the personnel expense accounts are credited (thus reducing the expenses). In the end, both Parish A and Parish B both show 50% of the priest's personnel costs.

- Parish A purchases supplies for a joint-parish fund raiser to raise funds for both parishes. When Parish A purchases the supplies, the supplies are recorded as fund raising expenses. When Parish B reimburses for their portion of the fund raising supplies, the payment is recorded as a fund raising expense. When the reimbursement is deposited by parish A, the initial fund raising expense account is credited (thus reducing the expense). In the end, both Parish A and Parish B but show their own portion of the supplies.

- An employee uses a parish's shipping services to mail a personal package. When the recurring shipping invoice is paid for by the parish, the entire invoice is expensed as normal to postage expense. The employee then reimburses the parish for his/her personal use of the shipping service. When the reimbursement is deposited by the parish, the postage expense is credited (thus reducing the expense) as if the expense was never incurred.

Using Accounts Receivable to Request Reimbursement

As discussed earlier in this manual, using the accounts receivable functionality requires the user to create and manage ‘items’ to add charges to an AR invoice. These ‘items’ are typically linked to income accounts, but they can also be linked expense accounts. This allows you to use the accounts receivable functionality to bill out reimbursable expenses. An invoice can be created and sent out, giving the other party clear documentation and allowing your parish to easily track such reimbursable expenses in QuickBooks.

Doing so will leave little room for error, as the items you set up will be then linked to the related expense accounts, so there won’t be much of a chance that direct reimbursements are recorded as income. If AR is used in this process, the income statement is updated real-time (when created on the accrual basis), showing only parish expenses, as the invoice created will have already decreased the applicable expense account(s).

EXPENSES – TRANSACTION LEVEL

Many sources of expenses are recurring in how and when they are incurred, such as personnel costs, utilities, and AAF tax. Other expenses might be only periodically incurred, such as maintenance & repairs, instructional supplies, and professional fees.

It is important to understand the types of expenses your parish may incur and how such expenses are recorded. Consistency on the transaction level is also important, as financial reporting will be more helpful and practical if similar transactions are recorded using the same expense account consistently.

Below are expense account specifics and detail on the transaction level for both commonly used accounts and accounts that are often misused. Not all expense accounts are detailed, as a majority of expense accounts are self-explanatory by account name and enough explanation is given on the official chart of accounts.

Personnel Costs

(4019) Other Benefits: Employer-paid benefits for lay personnel beyond FICA taxes, meetings, pension funding, and health insurance (all of the listed benefits have specific accounts established for each).

(4020) Other Benefits: Employer-paid benefits for religious personnel beyond FICA taxes, meetings, pension funding, and health insurance (all of the listed benefits have specific accounts established for each).

(4024) Clergy Gifts: Payments to priests for providing sacramental and liturgical ministry, such as the celebration of Mass and conducting penance services, and for payment to a supply priest.

(4030) Medicare Taxes: Employer-paid Medicare taxes based on taxable wages.

(4031) Social Security Taxes: Employer-paid Social Security taxes based on taxable wages.

(4033) Insurance: Employer-paid health insurance premiums for lay personnel. Any employee deductions for their portion of premiums should not affect this account.

Admin. Services & Supplies

(4053) Administrative: Administrative fees, such as bank charges or investment/endowment account administrative fees, should be debited to this account. An endowment ‘class’ can be established and assigned to endowment administrative expenses so that reports can be generating to exclude such expenses from a normal operating profit & loss statement.

(4058) Automotive: If your parish owns or leases a vehicle, gas, maintenance, registration & taxes, etc… should be debited to this account.

(4060) Maintenance & Repairs – Building: Incurred expenses for routine maintenance should be debited to this account. If major capital improvements are made, such expenses should usually be debited to the capital outlay account. The primary difference distinguishing the two is if the work is simply maintaining an existing asset or improving (not just extending the life of) the asset.

(4062) Special School Assessments: This account should be used only to record one-time or non-recurring school assessments.

(4063) School Tuition: This account should be used to record Archdiocesan school tuition and recurring school assessments.

(4064) AAF Expense: This account name in QuickBooks should not be altered in any way. Only Archdiocesan assessed AAF tax should be debited to this account.

(4066) Deposit & Loan Interest: Interest paid on a loan through the Deposit & Loan Fund should be debited to this account. Upon receiving your quarterly D&L statement, it is your responsibility to adjust the principal/interest allocation of payments made to reconcile to actual principal/interest paid.

(4073): Travel: Documented travel expenses incurred, typically by a priest or another employee, should be debited here. Examples include mileage reimbursement, airline ticket, and out-of-state meals.

(4075) Interest: Interest paid on a loan from any institution other than the Deposit & Loan Fund should be debited to this account. The principal/interest portion of payments must be allocated according to an amortization schedule.

(4081) Professional Fees: Fees incurred for professional services should be debited to this account. Examples include attorney fees, financial audit fees, and creative design services.

(4086) Miscellaneous: Expenses incurred that do not match well with any of the established expense account can be debited to this account. Most incurred expenses will have an obvious expense account. In the rare instance no account fits well, this account can be debited. However, the transaction should be described in detail in the transaction memo so that it remains clear what the transaction represents if there is a question in the future.

School Expenses

(4096) Scholarships: Reducing a student's tuition due by awarding an internal scholarship does not result in a decrease in tuition income. Such a reduction is an expense and this account should be debited if an internal scholarship is awarded.

(4097) Student Aid: Reducing a student's tuition due by providing student aid (grant), generally because of financial need, does not result in a decrease in tuition income. Such a reduction is an expense and this account should be debited if student aid is granted.

(4180) School expenses incurred that do not fit well with any of the established accounts can be debited to this account. Such a transaction should be described in detail in the transaction memo so that it is clear what the transaction represents if there is a question.

Activity & Entertainment Expenses

(4249) Special Fund Raising Events: Expenses for fund raising events should be debited to this account. All costs involved with organizing the event should be included.

(4250) Special Events Non-Fundraising: Expenses for non-fundraising events held should be debited to this account. Parish dinners and funeral lunches are examples of such events.

(4259) SCRIP: Purchased SCRIP is tracked as inventory, with only the discount received being recognized as income upon sale. The only transactions that will affect this account will be shipping & handling costs and any write-offs for lost or stolen SCRIP certificates.

Other Expenses

(4999) Capital Outlay: Based on our recommended capitalization policy or your own internal policy, capital purchases should be debited to this account. Depreciation of fixed assets is not allowed, so such capital assets are fully expensed when purchased. Sub-accounts can be added for different types of fixed assets, such as vehicles, buildings, and equipment.

APPLICABLE DEFINITIONS

Accounts Payable - Amount owed to a creditor for delivered goods or completed services.

Accounts Receivable - Claim against a debtor for an uncollected amount, generally from a completed transaction of sales or services rendered.

Accrual Basis - Method of accounting that recognizes revenue when earned, rather than when collected. Expenses are recognized when incurred rather than when paid.

Adjusting Journal Entries - Special manual accounting entries, typically at the end of an accounting period. Adjusting entries are necessary to update your accounts for items that are not recorded in your daily transactions.

Amortization - The process of spreading the cost of an intangible asset over the expected useful life of the asset. Also, the deduction of capital expenses over a specific period of time. Similar to depreciation, it is a method of measuring the "consumption" of the value of long-term assets like equipment or buildings.

Asset - Anything of value to which the company has a legal claim; any owned tangible or intangible object having economic value useful to the owner.

Audit Trail - A step-by-step record by which financial, business, and quality assurance data can be traced to its source.

Balance Sheet - Basic financial statement that presents, on a specified date, the entity's assets, liabilities and equity for the life of the institution. Also known as a Statement of Financial Position.

Balloon Payment - A final loan payment that is considerably higher than prior regular payments, in order retire a loan.

Bond - A certificate of debt (usually interest-bearing or discounted) that is issued by a government or corporation in order to raise money; the issuer is required to pay a fixed sum annually until maturity and then a fixed sum to repay the principal.

Book Value - The value of that asset on the "books" (balance sheet) of the company. The book value is not necessarily the same as the fair market value (the amount the asset could be sold for on the open market).

Budget - Financial plan that serves as an estimate of future cost, revenues or both.

Bylaws - Collection of formal, written rules governing the conduct of a corporation’s affairs (such as what officers it will have, what their responsibilities are, and how they are to be chosen).

Cafeteria Plan - A benefit plan maintained by an employer for the benefit of the employees under which each participant has the opportunity to select the benefits they desire.

Call – The process of redeeming a bond or preferred stock issue before its normal maturity. A security with a call provision typically is issued at an interest rate higher than one without a call provision.

Capital Gain - The excess of selling price over purchase price.

Capital Improvement - Any value added activity or cost to a long-term or permanent asset that increases its value.

Capital Outlay - The amount used during a particular period to acquire or improve long-term assets such as property, plant or equipment.

Capitalization – To record capital outlays as additions to asset accounts, not as distributions to expense accounts.

Cash Basis - Method of bookkeeping by which revenues and expenditures are recorded when they are received and paid.

Cash Equivalents - Short-term (generally less than three months), highly liquid investments that are convertible to known amounts of cash.

Cash Flows - Net of cash receipts and cash disbursements relating to a particular activity during a specified accounting period.

Certificate of Deposit (CD) - Formal instrument issued by a financial institution upon the deposit of funds which may not be withdrawn for a specified time period. Typically, an early withdrawal will incur a penalty.

Closing Entry – An entry at the end of a financial period to transfer the net effect of revenue and expense items from the income statement to equity.

Collateral - Assets used as security for the extension of a loan.

Common Stock - The most frequently issued class of stock. It usually it provides a voting right but is secondary to preferred stock in dividend and liquidation rights.

Compound Interest - Interest calculated from the total of original principal plus accrued interest.

Contra Account - Account considered to be an offset to another account; generally established to reduce the other account to amounts that can be realized or collected.

Coupon Rate – The annual interest rate of a bond.

Credit - Entry on the right side of a double-entry bookkeeping system that represents the reduction of an asset or expense or the addition to a liability or revenue.

Current Assets - Those assets of a company that are reasonably expected to be realized in cash, or sold, or consumed during the normal operating cycle of the business (usually one year). Such assets include cash, accounts receivable and money due usually within one year, short-term investments, US government bonds, inventories, and prepaid expenses.

Debit - Entry on the left side of a double-entry bookkeeping system that represents the addition of an asset or expense or the reduction to a liability or revenue.

Debt - Money, goods or services owed by an individual or company to another individual or company.

Debt Financing - Raising money through selling bonds, notes, or mortgages or borrowing directly from financial institutions.

Debt Instrument - A written promise to repay a debt. Examples: notes, bills, bonds, CDs, GICs, commercial paper, and bankers' acceptances.

Deferred Income - That income for which the cash has been collected by the company, but has yet to be "earned".

Deficit – The amount by which expenditures exceed income.

Depreciation - The process of allocating the cost of a capital asset to expense.

Disbursement - Payment by cash or check.

Disclosure - Process of divulging accounting information so that the content and context of financial statements is understood.

Distribution – Payment from fund or corporate cash flow.

Dividends - Distribution of earnings to owners of a corporation in cash, other assets of the corporation, or the corporation's capital stock.

Double-Entry Bookkeeping - Method of recording financial transactions in which each transaction is entered in two or more accounts and involves two-way, self-balancing posting. Total debits must equal total credits.

Earned Income - Income realized by the provisioning of goods and services.

Employee Benefit Plan - Compensation arrangement, generally in writing, used by employers in addition to salary or wages. Some plans such as group term life insurance, health insurance and qualified retirement plans are treated favorably under the tax law.

Endowment - A permanent fund where gifts to the fund are held in perpetuity and where earnings are used in accordance with the donor's specified wishes and legal requirements.

Equity - The amount of a business' total assets less total liabilities. Also, a section of a balance sheet, the other two being assets and liabilities.

Exempt Organization - An organization, corporation, association, or other legal entity that the Internal Revenue Service has determined to be exempt from taxation under federal law. Examples include cemeteries, charitable organizations, churches, fraternal societies, and labor unions. Not all nonprofit organizations are exempt organizations.

Expenditure - Payment, by cash, by assuming a liability, or by surrendering asset.

Expenses – The daily costs incurred in running and maintaining a business.

Extraordinary Items - Material items that are unusual in nature and occur infrequently.

Fair Market Value - Price at which property would change hands between a buyer and a seller without any compulsion to buy or sell, and both having reasonable knowledge of the relevant facts.

Fiduciary - Person who is responsible for the administration of property owned by others.

Financial Accounting Standards Board (FASB) - Independent, private, non-governmental authority for the establishment of accounting principles in the United States.

Financial Institution - Organization engaged in any of the many aspects of finance including commercial banks, thrift institutions, investment banks, securities brokers and dealers, credit unions, investment companies, insurance companies, and real estate investment trusts.

Financial Statements - Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time and its results of operations for a period then ended.

Fiscal Year - Period of 12 consecutive months chosen by an entity as its accounting period which may or may not be a calendar year.

Fixed Asset - Any tangible asset with a life of more than one year used in an entity's operations, such as a building, equipment, or furniture.

Fund Accounting - A method of accounting and presentation whereby assets and liabilities are grouped according to the purpose for which they are to be used. Generally used by government entities and not-for-profits.

Future Value - The amount of money that an investment made today (the present value) will grow to by some future date. Since money has time value, we naturally expect the future value to be greater than the present value.

Gain - Excess of revenues received over costs relating to a specific transaction.

General Ledger – The ledger that contains all of the financial accounts of a business.

Generally Accepted Accounting Principles (GAAP) - Conventions, rules, and procedures necessary to define accepted accounting practice at a particular time.

Gifts-In-Kind - Non-cash gifts of tangible or intangible property. Tangible property can fall into two distinct categories, and its value is derived from its physical existence: objects, such as equipment, software, automobiles, printed materials, etc.; or, services, such as providing photography services. Intangible personal property is property whose value stems from intangible rights, e.g. patents and copyrights.

Goal - The milestone the organization aims to achieve that evolves from strategic issues or operational improvement planning.

Held To Maturity - Refers to a security that has a predetermined maturation event.

Income - Inflow of revenue during a period of time.

Income Statement - Summary of the effect of revenues and expenses over a period of time. Also called a Profit & Loss Statement.

Internal Controls - Policies and procedures that pertain to the maintenance of accurate and detailed records, provide reasonable assurance that transactions are properly recorded and authorized, and safeguard assets.

Inventory – Goods and materials held available in stock that are available for sale or in the process of being made ready for sale.

Journal Entry - The logging of business transactions and their monetary value into accounts of the accounting journal as either debits or credits.

Ledger - A book of accounts in which data from transactions recorded in journals are posted and thereby classified and summarized.

Liability - Debts or obligations owed by one entity (debtor) to another entity (creditor) payable in money, goods, or services.

Liquid Asset - Cash and any asset that can quickly be converted into cash (e.g., cash, checks and easily-convertible securities).

Liquidity - A company's ability to meet current obligations with cash or other assets that can be quickly converted to cash.

Long-Term Liabilities - Liabilities of a business that are due in more than one year.

Loss - Excess of expenditures over revenue for a period or activity.

Marketable Security - A readily tradable equity or debt security with quoted prices.

Market Value - In general, is the price at which buyers and sellers trade similar items in an open marketplace.

Mark-To-Market - The act of recording the price or value of a security, portfolio or account to reflect its current market value rather than its book value.

Matching Principle - The accounting principle that requires the recognition of all costs that are directly associated with the realization of the revenue reported within the income statement.

Materiality - A concept within auditing and accounting relating to the importance/significance of an amount, transaction, or discrepancy.

Modified Accrual Basis - A mixture of the cash and accrual basis of accounting, usually necessary to properly reflect year-end accounting for audit purposes.

Net Assets – The difference between a company's total assets and liabilities; another way of saying owner's equity or net worth.

Net Income - Excess or deficit of total revenues and gains compared with total expenses and losses for an accounting period.

Non-Cash Expense - That expense which is recognized within the financial statements without actual cash being disbursed (e.g., depreciation, amortization, and write-offs).

Nonprofit Organization (Not-For-Profit Organization) – An organization that has committed legally not to distribute any net earnings (profits) to individuals which maintain control, such as members, officers, directors, or trustees.

Objective - A statement that is written in terms of specific measurable time-based and verifiable outcomes that challenge the organization to be more responsive to the environment to achieve the desired goals.

Obligation - A legal duty to pay or do something.

Parent Company - A company of which others are subsidiaries.

Planning - Basic management function involving formulation of one or more detailed plans to achieve optimum balance of needs or demands with the available resources.

Post - The transfer of accounting entries from a journal of original entry into the general ledger, in chronological order according to when they were generated.

Preferred Stock - Non-voting capital stock that pays dividends at a specified rate and has preference over common stock in the payment of dividends and the liquidation of assets.

Prepaid Expenses - Amounts that are paid in advance to a vender or creditor for goods and services (such as insurance).

Prepayment - The payment of all or part of a debt prior to its due date.

Present Value - The discounted value of a payment or stream of payments to be received in the future, taking into consideration a specific interest or discount rate. Present Value represents a series of future cash flows expressed in today's dollars.

Prior Period - Refers to an accounting period that has occurred in the past.

Promissory Note – Written, signed, unconditional, and unsecured promise by one party (the maker or promisor) to another (the payee or promisee) that commits the maker to pay a specified sum on demand, or on a fixed or a determinable date.

Proxy - The written authorization to act in place of another.

Purchase Order - A written authorization for a vendor to supply goods or services at a specified price over a specified time period.

Purchase Requisition - A written request for goods to be purchased.

Realized Gain/Loss - In securities, a capital gain or loss on securities held in a portfolio that has become actual by the sale or other type of surrender of one or many securities.

Real Property - Land and any permanent structures attached to it.

Reconciliation - The adjusting of the difference between two items (e.g., balances, amounts, statements, or accounts) so that the figures are in agreement.

Recurring Entry - A scheduled accounting entry that occurs consistently as to date and amount.

Redemption - The repayment of the principal amount of a debt or security at or before maturity.

Repair - Restore by replacing a part or putting together what is torn or broken.

Replacement Value - The cost to replace an item on the present market.

Reserve - Funds set aside for emergencies or other future needs.

Restricted Assets - Assets which are restricted by legal or contractual requirements for use under specific circumstances or purposes.

Retained Earnings - The portion of net income which is retained by the corporation (transferred from the income statement to the equity section of the balance sheet at the end of the fiscal year).

Revenue - The inflow of assets from selling goods and providing services to customers.

Reversing Entry - A very special type of adjusting entry that is a debit or credit bookkeeping entry made to reverse a prior bookkeeping entry.

Roll Forward - The systematic establishment of a new accounting period's balances by using (rolling forward) prior accounting period data.

Security - Financing or investment instrument (which may or may not be a negotiable instrument) issued by a firm or government agency which denotes an ownership interest and provides evidence of a debt, a right to share in the earnings of the issuer, or a right in the distribution of a property.

Short-Term Liabilities - Liabilities that will come due within one year or less.

Solvency - A company's long-term ability to meet all financial obligations.

Statement of Cash Flows - A financial statement that categorizes net cash provided or used during a period as operating, investing and financing activities, and reconciles beginning and ending cash and cash equivalents.

Stock - A certificate documenting the shareholder's ownership in a corporation.

Tax Shelter – A legal method that taxpayers can use to reduce tax liabilities.

Traceable - To discover by going backward over the transactions (evidence) step by step establishing a "paper-trail" for a transaction.

Trend Analysis - The analysis of changes over time through the use of analytical techniques.

Trial balance - A listing of the accounts in the general ledger and their balances as of a specified date. A trial balance is usually prepared at the end of an accounting period and is used to see if additional adjustments are required to any of the balances.

Trust Fund - A fiduciary relationship calling for a trustee to hold the title to assets, usually monetary, for the benefit of the beneficiary.

Unearned Revenue - Represents money that has been received in advance of providing the goods or services to a customer.

Unrealized Gain/Loss – Profit or loss which has occurred but not yet realized or collected through a transaction, such as a stock which has risen in value but is still being held.

Useful Life - The expected period of time, in years, during which a depreciating asset will be productive.

Variance - The difference between a projected number and the actual number.

Vesting - Non-forfeitable rights accrue based on the number of years of service performed by the employee.

Withholding - An amount of an employee's income that an employer sends directly to the federal, state, or local tax authority as partial payment of that individual's tax liability for the year.

Yield - The annual return on an investment, expressed as a percentage.