

# CATHOLIC DIOCESE OF CLEVELAND



## Financial Policy & Procedure Statement A

### PARISH & SCHOOL ACCOUNTING SYSTEM

#### CHART OF ACCOUNTS

Effective July 1, 1994, Parishes and Elementary Schools will use a new Chart of Accounts to record financial transactions. The Chart of Accounts is shown under the blue tabs of this handbook.

The Chart of Accounts is divided into three major categories - "Balance Sheet", "Parish" and "Elementary School".

Balance Sheet items include Assets (such as cash in the bank), Liabilities (such as payroll deductions to be paid) and Fund Balance (represents difference between Assets and Liabilities).

The Parish and Elementary School Charts of Accounts cover both Receipts and Disbursements and are categorized as either Operating or Extraordinary. Operating disbursements are recorded under various Cost Centers as follows:

#### PARISH COST CENTER

Administration  
Celebrating  
Caring  
Teaching  
Evangelizing  
Participating  
Plant Operation  
Other Operating Disbursements

#### ELEMENTARY SCHOOL COST CENTER

Administration  
Instructional  
Library  
Student Services  
School-Sponsored Food Programs  
Student Transportation  
Latch-key Program  
Pre-school Program  
Plant Operation  
Faculty Residence

#### ACCOUNT DESCRIPTIONS

To assist parish and school personnel in deciding which accounts should be used to record financial transactions, a detailed Account Description is provided on what should be charged or credited to each account. The Account Descriptions are shown under the amber tabs of this handbook. If parish or school personnel are unable to identify which accounts to use, they should contact the Diocesan Finance Office for assistance.

#### "MODIFIED" CASH BASIS OF ACCOUNTING

Most parish and school financial transactions will be recorded on a cash basis. Cash basis means that receipts are recorded as income when money is actually received and disbursements are recorded as expenses when payments are actually made.

While recording transactions will be mostly on a cash basis, the system has been somewhat modified to provide for recording some transactions on an "accrual basis" to enable improved reporting of income received and expenses incurred. For example, schools frequently collect registration fees and tuition in the spring for the next school year. If amounts collected in advance are insignificant, it may not be necessary to defer the income to the next school year. However, for some schools the amounts involved are material and the amounts prepaid should be considered as "Income Received in Advance" at June 30. The income will be transferred to the appropriate income account the next school year.

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Consistent with the concept of recording school income in the school year to which it applies, it is recommended that when a teacher's contract provides for salary payments over a 12-month period, unpaid salaries (and related employer taxes) at the end of the school year be recorded as expenses in that school year. The unpaid salaries and taxes would be recorded as "Accrued Liabilities".

The handling of employee payroll withholdings provides another example of the modified cash basis of accounting. Under the prior accounting system, some parishes recorded employees' net pay as salary expense and, when amounts withheld from their pay were paid to taxing authorities and others, the payments were recorded as payroll taxes or fringe benefits. Under the modified cash basis accounting system, gross salaries are recorded as expenses when employees are paid and the amounts withheld are recorded as "liabilities" until such time as the amounts withheld are paid to the appropriate parties. (These and other examples of the modified cash basis of accounting are discussed further in various parts of the handbook.)

### USE OF "ACCRUAL BASIS" OF ACCOUNTING

It is recognized that the accrual basis of accounting (not the cash basis) is the preferred way of recording transactions. Simply put, Accrual Basis of Accounting means that Income is recorded when it is earned and Expenses are recorded when they are incurred.

As most parishes have been using the cash basis for many years and their personnel may have difficulty in changing from cash to accrual basis (on top of the voluminous changes being made with the new Chart of Accounts!), the parishes are not now required to change to the accrual basis. Those parishes now using the accrual basis should continue to use that basis. Also, we encourage parishes to switch to the accrual system if they have the expertise and want to change to meet the parish needs.

### PROGRAMS AND ACTIVITIES TO INCLUDE IN ACCOUNTING SYSTEM

Generally, all programs and activities under the DIRECT control of the parish and school should be included under the accounting system. For example, a parish may maintain a checking account for its PSR program or a school may have a checking account for its food program. The transactions for these types of activities should be reported under the new accounting system. The checking account balances should also be recorded on the parish or school books.

While transactions involving programs and activities under the direct control of the parish and school are to be recorded, it is not necessary to include in the new system parish and school-affiliated organizations (such as PTU, Athletic Association, St. Vincent De Paul and Holy Name Society). However, the fiscal year-end bank balances of these affiliated organizations (as well as any organization using the Parish Federal Tax Identification Number) are to be reported separately in the financial report to the Diocese.

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#### **USE OF CONTROL ACCOUNTS AND SUB-ACCOUNTS**

The Chart of Accounts shows that major account classifications are divided into control accounts as illustrated by the 12 control accounts in the Chart of Accounts for "Parish Operating Receipts", as follows:

- 1001      Offertory Collections
- 1002      Other Collections
- 1004      Bequests, Donations and Restricted Funds
- 1005      Contributions from Parish Organizations
- 1006      Income from Parish Programs
- 1007      Income from Teaching Activities
- 1008      Net Bingo Proceeds
- 1009      Fund-raising Gross Income
- 1010      Investment Income
- 1011      Endowment Income
- 1012      Rental Receipts
- 1013      Miscellaneous Receipts

In turn, the control accounts are frequently broken down into sub-accounts to provide more specific data for the use of the parish. For example, control account 1001 (Offertory Collections) is divided into four sub-accounts as follows:

- 1001.01    Virgil/Sunday Collections
- 1001.02    Christmas and Easter Collections
- 1001.03    Other Holy Day Collections
- 1001.04    Other Offertory Collections

In the annual financial report to the Diocese, only the data shown in the 12 control accounts are reported under "Operating Receipts" of the Parish section of the report. Thus, the information of interest to the Diocese is summarized in the control accounts.

The Pastor, Principal, Parish Pastoral Council, Parish Finance Council, Commissions and others involved in the operation and management of the parish and school usually need more data than is shown in the control accounts. Therefore, they will frequently use the data in the suggested sub-accounts. The use of sub-accounts is optional, but much of the data that would be recorded in sub-accounts is important for internal budgeting and reporting purposes and the parish may want to use many sub-accounts.

An example of the use of sub-accounts can be seen under control account 2103 - "Altar, Sanctuary and Liturgy": This control account is broken down into suggested sub-accounts such as Furnishings (2103.01), Altar Supplies (2103.02), Candles and Votive Lights (2103.03) and Flowers and Decorations (2103.04). At many parishes the amounts involved are significant and the parishes probably would want to allocate disbursements to the various sub-accounts. However, other parishes may decide that the data in the control account is sufficient for their needs.

For their own purposes, some parishes may want to use different sub-accounts. To illustrate, control account 2203 (Christian Services Programs) under Caring Disbursements has several programs listed as sub-accounts. However, the parish may have other important Christian Service Programs and may want to add or delete sub-accounts. The parishes are not permitted to add or delete any control accounts.

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#### USE OF ACCOUNTING SYSTEM AND FINANCIAL STATEMENTS

While the parishes and schools are required to use the Chart of Accounts and to send the prescribed financial statements to the Diocese, the means by which they record the data is left to their discretion. The parish or school may decide to use computers, a peg-board system or a manual system - whatever they believe best meets their needs and results in the data needed for the annual financial report to the Diocese.

#### CONSISTENCY

When recording financial transactions, it is imperative that similar transactions be treated on a consistent basis. Without such consistency, the accounting records become suspect and proper comparisons with amounts budgeted for the period or with data from prior accounting periods becomes difficult. Those people entering data into the system must be trained and properly supervised to assure that similar transactions are handled consistently.

#### DONATED GOODS AND SERVICES

When a parish-affiliated organization buys something for the parish or school or pays for expenses incurred by them, the transaction should be recorded under the appropriate receipt and disbursement accounts. For example, if the PTU donated computers to the school, the cost of the computers should be credited to school receipt account 4003 - Bequests, Donations and Restricted Funds and charged to school capital disbursement account 6005 - Vehicles, Equipment and Furniture.

Similarly, if an individual or outside organization donates non-cash property to the parish or school, the fair market value of the property or the donor's basis in the property at the date of the gift, whichever is the lesser amount, should be recorded under the appropriate receipt and disbursement account. The same principle applies to non-cash bequests made to the parish or school.

#### MAINTAINING AND SAFEGUARDING FINANCIAL RECORDS

All parish and school financial records (including Bingo records) are the property of the parish and should be maintained at the parish or school offices, as appropriate. The records should never be taken from the parish or school and should be kept in a vault or a locked, fireproof filing cabinet. When computers are used, the data should be backed up on disks and stored off-site.

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