

Chapter 9 — Cash Receipts

Policy: Appropriate internal controls over cash receipts and deposits will be maintained at all times. An internal accounting system must be designed with sound accounting policies and procedures that ensure the integrity of the financial statements, books and records.

Purpose: To establish procedures for receiving, applying and depositing cash receipts.

Scope: Applies to all cash receipts received by the parish.

General Comments: For additional guidance, forms and administrative tools relating to material in this chapter, please see Chapters 20, 21 and 22.

- A. **Receiving**—The receptionist/secretary opens envelopes but does not remove the contents, and then hand-carries the envelopes to the accounting department. For smaller parishes, cash receipts should be under dual control whenever possible.

Ideally, all receipts will be opened by two people, with checks immediately restrictively endorsed as they are received and logged in. An adding machine tape of the checks should be run, with the two individuals dating and initialing the tape to document their agreement with the total. A receipts log noting date, amount and the two individuals initials should be maintained for future tracking to the deposit slips and general ledger posting. Cash receipts should be locked in a secure location until they are turned over to accounting personnel for deposit. Lacking any other supporting documentation, photo copies of checks will suffice. The other documents contained in the envelopes should also be provided to the accounting personnel for proper filing.

The accounting department will prepare a cash receipts voucher for each receipt, to document the origin of the funds. All checks will be photocopied for attachment to the voucher. Any papers accompanying a check will also be stapled to the voucher.

- **Deposit Logs**—Accounting personnel will document all receipts on the Deposit Log. Checks should be deposited as soon as possible, and withheld from daily deposit only if legally imperfect. A standard letter of information/inquiry is to be sent or faxed to the payer when there is any question as to the correct application of the check.

Checks are totaled and the calculator tape attached to the check bundle. This total must match the total on the Deposit Log check column and compared to the receipts log maintained by the mail openers, noting any differences and the reasons for the differences. The final net cash deposit must reconcile with the taped total in the cash column on the Deposit Log.

- **Bank Deposit**—The accounting department will prepare a bank deposit slip and will deposit the checks and cash with the parish's authorized bank. Cash deposits should be made on the same day as received when possible.
- **Bank Accounts**—The number of bank accounts should be kept to the minimum necessary to accomplish the business of the parish. Multiple bank accounts can complicate the accounting process. Transactions are more likely to be recorded

incorrectly, bank transfers become more frequent and more complicated, and the financial activity of the parish becomes more difficult to monitor.

Each parish will have a primary checking account to handle the operations of the parish and school. The Pastor/Parish Director should maintain control over the cash and investment assets of the parish.

Under no circumstances should the bookkeeper or accountant, or anyone else who has regular access to the accounting records of the parish or school, also be an authorized signer on a bank account. Segregating access to cash from access to the accounting records is an important element in the internal control structure of the parish. See Chapter 20 for further discussion on internal controls over cash receipts.

It is the policy of the Diocese that Pastors/Parish Directors *may not use signature stamps to sign checks.* Signature stamps are very difficult to control. Even when carefully safeguarded, there is still the danger that someone will gain access to the stamp and use it to sign checks without the Pastor's/Parish Director's authorization.

- **School Principal's Checking Account**—If the principal has a bank account, it should be used to pay for small incidental expenses. Establish an imprest account balance with a maximum of \$300. Deposits to replenish the account should be transferred from the parish checking account. Regular cash receipts of the school, such as tuition and activity fees, should be deposited in the parish checking account. School bills and payroll should be paid from the parish checking account.

B. **Bank Account Reconciliations**—All bank accounts must be reconciled to the general ledger monthly. The Pastor/Parish Director should periodically review bank reconciliations, canceled checks, and accounting records of parish and school-related organizations to determine if receipts and disbursements are properly recorded. This will help the Pastor/Parish Director monitor parish activities.

- **Format**—The parish's monthly bank reconciliation is composed of two distinct sections. One section begins with the balance as shown on the bank statement and works to a corrected balance—the balance the statement would show if all transactions were recorded by the bank (e.g. outstanding checks, deposits in transit, etc.).

The second section starts with the balance shown by the parish records and also works to a corrected balance, the balance that should be shown in the parish's records after all transactions are properly recorded (e.g. bank charges, interest, etc.).

1. **Preparation and Reconciling Items**—The monthly bank reconciliation will be prepared by the accounting personnel upon receipt of the monthly bank statement, which includes cleared checks, deposit slips and any other transaction notifications.
 - Start the monthly reconciliation with the ending balance per the bank statement.
 - Any deposits in transit (made by the parish but not yet recorded by the bank) are listed and added to the bank balance.

- Next, list any checks that were written on the account prior to month-end but which have not yet cleared the bank, and deduct them from the bank balance.
- The "corrected" ending balance will be derived for the first section.
- Parishes are asked annually to report December 31st reconciled account balances to the Diocese through the Cash and Investment Report.

2. **Adjustments and Journal Entries**—Any reconciling items such as interest, bank charges and recording errors are summarized and drafted in journal entry form for posting to the general ledger.

Further, any outstanding checks over six months old will be reviewed for disposition, including the need to void and reissue. Any checks outstanding more than five years fall under the Colorado Escheat law (Great Colorado Payback) and funds must be sent to the State. They then attempt to locate the payee.

- C. **Petty Cash**—Many parishes maintain a petty cash fund to pay for small incidental expenses. The amount of petty cash and the number of petty cash funds should be limited. Typically, the parish will have one petty cash fund with the amount no greater than \$300. If the school does not have a principal's imprest checking account, the school may also have a small petty cash fund.

The following controls should be in place over petty cash:

- The Pastor/Parish Director should set a dollar limit on petty cash expenditures. Expenditures above this amount will be paid by check.
- One person only should be responsible for and have access to petty cash.
- The petty cash fund should be in a secure location.
- The parish should use petty cash vouchers. The person requesting payment fills out the voucher and attaches all receipts. Paid vouchers are kept in the petty cash box to support reimbursement.
- When petty cash is low, the person responsible adds up all the vouchers in the petty cash box and submits a check request for the total amount of the vouchers. The vouchers and receipts are attached to the check request and filed with paid invoices. Each submitted receipt should be stamped "paid."
- A check is drawn on the parish checking account to replenish petty cash, recorded in the appropriate expense accounts as indicated on the vouchers. The check to replenish petty cash is not recorded in account 1010—Petty Cash.

- D. **Offertory Collection Procedures and Safeguards**—Offertory is the parish's largest single source of cash. For budgetary purposes parishioners may be asked to fill out commitment/pledge cards. **It is very important for the commitment/pledge card to make clear that this is an agreement between the donor and God**, and that the parish will not seek payment of unpaid balances. These cards are simply *intentions to give* and are not recorded for accounting purposes—*at no time should commitments for offertory be recorded as Pledges Receivable*. The language used on the card determines if these commitments/pledges are considered intentions to give.

Offertory can be difficult to safeguard effectively. Until the offertory is locked in a safe, it is highly susceptible to loss or theft. Until the offertory is counted and the amount recorded, losses would very likely remain undetected. However, the role offertory plays in the Mass and the manner in which it is collected may make imposing more stringent controls undesirable. Pastors/Parish Directors should consider the following guidelines in handling offertory from the time it is collected until it is locked in a safe:

- No one person should be left alone with money, especially in an out-of-the-way location such as an ushers' room or sacristy. A thief who has been studying the normal method for handling offertory may decide to "surprise" a lone usher who has left the main church with a basket or bag full of money. A thief may be reluctant to confront two or more people.
- If the ushers consolidate collections into one basket before they are brought to the altar, they should do so in the church itself, and not in the vestibule or ushers' room. If the ushers put the offertory into bank bags before it is locked in the safe, at least two people must be present.
- Consider utilizing a bank night depository for weekend offertory.
- Offertory should be removed from the altar **immediately** after Mass, before everyone has left the church.
- Pastors/Parish Directors should minimize the number of people who handle offertory. Ushers should pass the offertory directly to the Pastor/Parish Director or another responsible person, who immediately places it in the safe.

Procedures for Counting and Recording Offertory:

1. As soon as Mass has ended, the offertory should be locked in a safe, unless it is to be immediately counted. Access to the safe should be limited to authorized personnel, typically the Pastor/Parish Director and/or Business Manager. Ideally the safe should be maintained under dual control. Under no circumstances should the offertory be taken home.
2. The collections should be counted as soon as possible by at least two unrelated individuals. Money should always be counted on the parish premises or a Pastor/Parish Director approved place. Typically, the parish will have teams of counters who work on a rotating basis. It is also a good idea to replace cash counters periodically. In most cases, the weekend offertory should be counted no later than the first work day following collection. The counters should restrictively endorse all checks. This is accomplished by stamping or writing "For Deposit Only to (Parish Bank Account Number)" on the back.
3. The counters should count and record all loose cash from the offertory and record the amounts on the Cash Log Sheet or Offertory Collection and Deposit Sheet. Next, envelopes with cash should be verified by comparing the amount written on the outside of the envelope with the contents. The counters should mark the amounts from the cash envelopes on the Cash Log Sheet or Offertory Collection and Deposit Sheet. These sheets should be prepared in ink and signed by each of the counters. The empty envelopes should be tallied and verified before the accounting personnel posts to the individual parish records. Also, the loose collection amount should be posted by the accounting personnel for a TOTAL collection report.

4. All checks should be totaled and logged prior to being submitted to accounting personnel for posting in the parish individual records. When posting is completed, a tally of checks is made and the counters are then to verify the posting sheets with these checks. If an error is noted, correction can be made.
5. The bank deposit is then prepared. All money should be deposited intact, that is, the entire amount collected should be deposited at the same time. The total deposit should equal the total on the Deposit Log sheet. Total cash should equal the cash column on the Deposit Log.
6. Money should be deposited as soon as it is counted. It is preferable that two people take the deposit to the bank. Although staffing sometimes does not allow, it is best for someone not involved in recording cash receipts to take the deposit to the bank.
7. The bookkeeper or accountant should receive the deposit, cash log sheets, and the validated bank deposit slip. He/she should compare the amounts on the log sheets and deposit slip to make sure they are the same. Any differences must be investigated immediately.
8. The accountant/bookkeeper enters cash receipts in the accounting system from the deposit log. The total of each cash receipts entry should equal the deposit amount and the total on the corresponding cash log sheet and deposit log.
9. Cash log sheets, deposit logs and bank deposit records should be kept on file in accordance with the record retention schedule in Chapter 19. These records should be available for the financial review.

- E. **Cash Collection and Deposit, Other Receipts**—Parishes may receive other cash receipts during the week, fund raising income, Mass offerings, and miscellaneous donations. The amounts received during the week may be quite large. The basic controls described above also apply to other cash receipts the parish receives. The procedures to handle these amounts may vary, depending on parish staffing and the amounts collected.

All cash receipts should be recorded on a cash receipts log sheet and deposit log, which should be used to enter cash receipt information into the accounting records. If cash is deposited during the week, the parish should prepare a cash receipts log sheet and deposit log, which equals the corresponding bank deposit.

- F. **School Tuition**—Tuition rates must be established at the direction of the Pastor/Parish Director in consultation with the principal, school board and finance council. Tuition rates are often less than the actual costs to run the school. As a result, the general offertory and special donations are needed to subsidize the school.

The parish may decide to provide scholarships to assist students with tuition. Extreme care must be taken in establishing any type of scholarship program, so as to not violate tax regulations, conflict of interest standards or diocesan policy. A parish, including non-school parishes, must never “give” a scholarship or free tuition to a student/family in exchange for receipt of offertory. This situation is not acceptable, as it provides an illegal tax deduction for the contribution versus a non-deductible payment for the tuition. In these situations, the proper accounting is to recognize any payments as tuition first, up to the established tuition rate, and then any remaining receipts as offertory.

If a parish, including non-school parishes, establishes a school program whereby no tuition is charged to anyone and all students may attend free, then 100% of cash flow to run the school comes from general offertory or restricted donations.

All school scholarship programs must be reviewed by the diocesan accounting personnel prior to being implemented, to assist the parish with the proper structure and recording.

The following steps will facilitate school tuition recording and collection:

1. Accounting personnel should collect, record, and deposit cash receipts of school tuition.
2. A deposit list should be prepared that shows family name and amount collected. The list should be used to record income in the parish accounting records along with attachments included by the family for proper documentation.
3. All program receipts (tuition, registration fees) should be deposited into the **parish operating account**. There should not be a separate bank account for these receipts.

It is preferable to begin tuition billing in advance. With a computerized billing system, you can set up billing cycles between July 1st and ending June 30th (the entire fiscal year). Billing that begins in August and ends in May (10 months) allows accounting personnel time to deal with any delinquent tuition before the school year ends.

A family records book or file that shows amounts owed, collections and comments by the family can be especially helpful.

Tuition balances should be reconciled to the parish accounting records monthly.

- **Delinquent Tuition**—At the end of each school year, the Pastor/Parish Director or Business Manager and Principal should review delinquent tuition accounts. Amounts which should be collected and those estimated to be collected next fiscal year, should have been recorded, using the following journal entry example when tuition was billed:

DEBIT: Accounts Receivable (tuition) (1130-300000)	6,000.00	
CREDIT: Tuition Income (3230-300000)		6,000.00
(Amount Estimated to be collected)		
CREDIT: Allowance for Non-Collectibles-PY(1190-300000)		1,000.00
DEBIT: Bad Debt Expense (6065-300000)	1,000.00	

When delinquent tuition which was previously recorded as a receivable is collected during the next fiscal year, it is recorded as follows:

DEBIT: Cash on Deposit (1030)	4,500.00	
CREDIT: Accounts Receivable (tuition) (1130-300000)		4,500.00

Accounts which are later determined to be uncollectible should be written off, using the following journal entry:

DEBIT: Allowance for Non-Collectibles (1190-300000)	1,000.00	
DEBIT: Bad Debt Expense (6065-300000)	500.00	
CREDIT: Accounts Receivable (tuition) (1130-300000)		1,500.00

If you later **receive more than the previously estimated tuition** to be collected, use the following journal entry (in this example you received \$100 more than was estimated) at the end of the time of collection:

DEBIT: Cash (1030-000000)	1,000.00	
DEBIT: Allowance for Non-Collectibles (1190-300000)	100.00	
CREDIT: Accounts Receivable (tuition) (1130-300000)		1,000.00
CREDIT: Bad Debt Expense (6065-300000)		100.00

G. **Cash Receipts from Other Sources, Child Care Centers, and Other Programs—**

School extended-care programs, including summer school, summer camp, and before and after school programs, present special internal control problems. Since these programs operate outside of normal school hours, control over cash receipts is more difficult. There may be a limited number of people available to collect and record cash receipts, and significant amounts collected in cash rather than check. It may be impossible to deposit cash the same day it is received. Especially where drop-in-care is allowed, parents may wish to pay daily when they pick up their children from the program. Many parents will want receipts so they can file for reimbursement from employers to claim childcare tax credits on their individual tax returns.

In developing a cash receipts and recording system for an extended care program, Pastors/Parish Directors should keep in mind the following minimum requirements:

1. The childcare manager should collect, record/log and deposit cash receipts.
2. A deposit list should be prepared that shows family name and amount collected.
3. All program receipts (fees) should be deposited into the **parish operating account**. There should not be a separate bank account for these receipts.
4. Some provision must be made to safeguard cash. If fees are collected after regular school hours and night deposits cannot be made, the money must be locked in a fireproof safe on parish premises. Under no circumstances should caregivers take money home with them at night. To prevent losses and errors in recording extended care income, collect fees during regular school hours.
5. Limit the number of people who have access to cash; do not authorize *all* the caregivers to collect fees. Inform parents of the payment arrangement, to prevent them from pressuring any individual caregiver to accept money.
6. Many parents will need a statement of extended care payments when they file their individual income tax returns. Extended care records should be designed to give calendar year totals by family name.
7. Parents who participate in employer reimbursement programs will require a contemporaneous receipt. Extended care programs should issue pre-numbered multi-part receipts, to be reconciled to deposits by the accounting personnel.

It is preferable to bill extended care families in advance. A computerized billing system can add extended care fees to the regular tuition bill. If fees are billed weekly and the school is reasonably certain the parents will pay on time, fees can be added to the following month's tuition bill. If extended care fees are not part of the regular tuition records, the program should have a cash receipts book, a roll book, or family records that show attendance, billing, and collections by family.

Extended care records should be reconciled to the parish accounting records monthly, by adding the total of all daily deposit lists for the period or footing the cash book and comparing to the general ledger. If extended care fees are recorded in the tuition summary account, extended care records may be reconciled to the general ledger when tuition records are reconciled.

Parishes are encouraged to issue multi-part receipt forms for extended care collections. The carbon copies of the receipts can be used as a cash receipts book. Each day the total of all receipts issued that day should be recorded. This amount should match the corresponding bank deposit exactly.

H. **Related Organizations**—Any group, organization or ministry such as Altar Society, Men's Society, Women's Groups and PTO's using the name of the parish and acting as an extension of the parish for its activities, must have its financial activities flow through the parish operating account. Groups such as the above cannot maintain their own bank accounts. Their activities are the responsibility of the Pastor/Parish Director and thus must be under the Pastor's/Parish Director's control. This can be accomplished by having their activities flow through the parish operating account.

I. **Contributions**

1. **Gifts**—A record of each parishioner's total contributions to the church should be made available to them by January 31st of each year. It is recommended that the parish acknowledge all donations exceeding \$50 for the calendar year. If letters are sorted by zip code, they can be mailed bulk rate (check with your postmaster each year for the current ruling). These letters could also be printed and made available to parishioners in the parish office to save mailing costs.

2. **Restrictions**—All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the restriction.

Only third parties (such as parishioners) can restrict their gift for a specific purpose. Parishes may *designate unrestricted funds* for specific purposes, but cannot restrict gifts received. See Chapter 13.

In order for a donation to be recorded into the Donor-Restricted category, there are certain criteria that must be met. They are as follows:

- a. The donation must be for a specific time period or specific purpose, such as a statue, vestments, an organ, school tuition grant, etc.
- b. A specific item need not be funded by one individual alone. If an item cost \$5,000 and five people wish to contribute \$1,000 each, that is acceptable and may be considered donor-restricted.

- c. Records should be maintained to support the Donor-Restricted contributions and subsequent disposition of those funds. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.
 - d. See Chapter 13 for further discussion on restricted and designated net assets.
3. **Solicitation of Donations**—Refer to Chapter 14—Fundraising Activities.
4. **In-Kind Contributions**—Unlike contributions of cash and other assets, services are not recognized until they are rendered. Contributed services must be given accounting recognition at their fair value if :
- a. The services create or enhance non-financial assets, or
 - b. The services require specialized skills and are provided by individuals possessing those skills (generally limited to professionals and craftsmen), and would typically need to be purchased if not donated.

Contributed services not meeting either criteria **cannot** be given accounting recognition. This represents a significant change from prior accounting practice for some Not-For-Profit's and is likely to result in non-recognition in circumstances where recognition occurred in the past.

A parish receiving contributed services is required to disclose:

- The nature and extent of contributed services received,
 - A description of the programs or activities for which the services were used, and
 - The amount of contributed services recognized during the period. Donors should provide the value of contributed services to be recorded.
5. **Youth Fundraising** (Funds Held for Others)—These funds are collected for the purpose of a youth event, such as World Youth Day, field trips, Mission Trips, etc. The parish holds these funds in trust for the event and records it in a liability account (2620). **Any funds collected over and above the event expenses should be recorded as revenue.**
6. **Bingo**—Colorado State Law requires that a separate bank account be maintained for all activities related to bingo games operated by a parish (or school). Bingo must be conducted in accordance with Colorado State Law, local county and city ordinances.
- The parish cannot co-mingle funds from any other sources—bingo monies must be kept completely separate and records of receipts and disbursements must be maintained.
7. **Scrip**—Under Internal Revenue Code Section 511, taxes may be imposed on an exempt organization when it becomes involved in unrelated trade or business matters. Carefully consider the decision to sell scrip. Gift certificates (scrip) are clearly not substantially related to the exempt purposes of the parish or school, other than for purposes of generating income. If the parish or school operates a certificate program on a regular basis during a significant portion of the year, it could be liable for unrelated business income taxes. However, under Internal Revenue Code Section 513 (a) (1)

there is an exception for organizations with substantially **all volunteers**. Thus, if the work of reselling the scrip is performed exclusively by parents of students or other **unpaid volunteers**, income would not be classified as unrelated business.

- **Inventory**—Most parishes find it convenient to keep an inventory of certificates on hand, which can involve very large sums of money. When buying certificates for inventory, remember that the parish is working on a small profit margin. If the parish only makes 4% on certificate sales, it's relatively easy to invest more in inventory than the parish ever sees in profit. Here's an example:

	<i>Cost</i>	<i>Face Value</i>
Parish purchases certificates:	\$1,920	\$2,000
Parish sells ¼ of them:	<u>480</u>	<u>500</u>
Remaining Inventory:	\$1,440	\$1,500:

This would put the parish in a losing position—the program has made \$20, but is holding \$1,440 in unsold inventory, a net cash outlay of \$1,420. The parish may need to make a significant cash disbursement to purchase a starting inventory, but should be careful of the above situation.

Volunteers should deposit proceeds from certificate sales into the parish checking account and should request a parish check to purchase certificates. This way, the Pastor/Parish Director will see how much money is flowing through the program when he signs the checks and reviews bank statements and accounting records.

Complete and accurate financial records are essential. The volunteer in charge should keep a record of the number of certificates on hand, the number sold each week, the money collected and deposited, the money expended, and the net profit. The records must be reconciled to the general ledger monthly.

When certificates are sold after Masses, there are often several people involved. These people should receive an inventory sheet that tells them how many of each type of certificate they have. They should record how many certificates they sold, how much money they collected, and how many certificates they handed on to the next seller. When the money and certificates are returned to the volunteer in charge, he or she should reconcile the starting inventory of certificates, money collected, and ending inventory of certificates.

Certificates should be kept in a manner that makes inventory easy—for instance, each type of certificate should be kept in a separate envelope. When a seller receives certificates, he/she should be able to easily count how many of each certificate he/she received. Each new seller must count the certificates and cash he/she received. This is essential to protect the certificate inventory and cash receipts, and to protect the interests of the volunteers selling certificates. An inventory/transfer log should be maintained to record activity, initialed by the two sellers at each transfer.

- **Safeguarding Certificates and Cash**—Certificates are just like cash. Whoever has them can use them at the store for their face value, so they must be safeguarded just like money. To prevent loss, unsold certificates should be put in

the parish safe as soon as sales are concluded. The money collected should be put in the safe and remain there until it is deposited in the bank.

Someone who is not involved in certificate sales should periodically check the inventory, unannounced. Certificates should be inventoried at least once a year.

8. **Stock**—The donor-established value of stock should be recorded on the date the stock is received. Upon subsequent liquidation, any change in the value of the stock would be recorded as a gain/loss on sale of investments.

Unless restricted by the donor, the parish does not retain securities given by donors but instead converts the gifts to cash for reinvestment in accordance with its investment policies. If the donor did not provide the parish with a value and the stock is liquidated immediately, record the value at liquidation.

9. **Bequests**—Bequests are gifts, considered to be one-time windfalls, that someone leaves to the parish through his/her estate (or a portion of their estate). Bequests are exempt from the 10/20/70 Methodology.

If a bequest is irrevocable and **known** to the parish, it must be recorded as a receivable on the books. If the bequest is not irrevocable but is **known**, parish management may need to disclose in footnotes to the financial statements. In either event, call the diocesan accounting office for proper recording treatment.

10. **Grants**—A grant may be received from an endowment, organization, etc., to fund a specific purpose. These gifts are often Donor-Restricted and should be accounted for in that manner.

11. **Other Property (Real Estate, Art, Personal Property)**—These gifts of real property (non-monetary) are exempt from the 10/20/70 Methodology until they are sold and should be recorded at fair value, determined by the donor at the date of the donation or by an independent appraisal. **Do not accept any gifts of real property without the Bishop's approval.**