

DIOCESE OF SAN DIEGO SCRIP PROCEDURES

A. Overview of Program

Many parishes and schools utilize Scrip as a fundraiser. Participants purchase Scrip from the parish/ school, which they then use at local stores such as Vons, Kohl's, or Target. There are literally hundreds of businesses nationwide that participate in the Scrip program. When Scrip is used for purchases, the parish/school receives a small percentage as the fundraiser contribution.

People order Scrip from the parish/school, which in turn orders Scrip from a company such as the National Scrip Center. The Scrip then arrives at the parish to be picked up by or distributed to parishioners.

In a typical Scrip program, the parish/school is entitled to retain the difference between the face value of the Scrip and the discounted purchase price. For example, if Scrip is sold at its face value of \$100, and the parish/school purchased the Scrip at a 10% discounted rate of \$90, the parish/school would be entitled to retain \$10 as Scrip rebate.

Several parishes and schools also may participate in the eScrip program where participants register their loyalty cards and/or credit/debit cards with eScrip, shop at participating merchants and earn a monthly contribution that is automatically deposited in the organization's bank account via EFT.

B. Tax Issues: The IRS and Scrip

Scrip is considered additional income compared to the traditional forms of revenue that a parish/school receives such as contribution envelopes and tuition. Since this additional revenue can be considered taxable by the IRS, it is **required** that the Scrip program is maintained by **volunteers** in order to avoid any possible taxation.

The IRS considers Scrip fundraising activities as a trade or business. The profits made from the activity are exempt from income tax when the number of volunteer hours is at least 85% of the total number of hours it takes to run the program. In a letter dated December 3, 1998, the IRS stated on this matter, "It is the responsibility of each participating parish or school to maintain any records necessary to show that this is in fact the case."

All Scrip programs must maintain a record of the hours compiled for each volunteer and paid employee. At the end of the fiscal year, June 30, a calculation must be made to see if the program meets the "85% test." If the paid hours exceed 15% the total hours, a Form 990-T must be prepared and tax paid on the profits. Filing this tax return is a significant burden that will reduce the fundraising profit, but can be completely avoided with proper planning. Note: The 85% test does not apply to the E-Scrip program conducted at a parish/school.

Please note, participants do not receive gift acknowledgement letters for purchases of Scrip since participants are receiving dollar for dollar value.

C. Scrip Volunteers

The term, volunteer, refers to anyone not receiving a form of compensation for time worked for the Scrip program. Anyone volunteering to work for the Scrip program should not receive money, Scrip, or any additional tuition benefit.

D. The Safeguarding of Scrip

Scrip can be an excellent fundraiser if it is properly handled and safeguarded. Since Scrip is an alternative form of currency, it should be treated as cash. Accordingly, parish/school should practice safe procedures in the handling of Scrip. The following procedures should be followed:

- 1.** Scrip cards must be stored on parish/school premises. Scrip should be stored in a safe which is locked at all times. The safe should be kept in a non-obvious secure area on parish premises. Allowing Scrip to be stored in an individual's home creates risk both to the parish/school and the individual.
- 2.** Only parishioners/parents at school should be allowed to participate in the program to avoid any fraudulent activity. Those participating in the program should pick up Scrip at the parish/school in a centralized location. Scrip can be sent home from school with a student if the parent signs a waiver providing the parish permission to do this.
- 3.** A large inventory (over \$10,000) of Scrip should not be maintained. Scrip can be received from the National Scrip Center (or other Scrip clearinghouses) in one day via overnight mail.
- 4.** Scrip inventory must be accounted for in the parish/school balance sheet.
- 5.** Adequate bookkeeping that tracks the purchase and distribution of Scrip is required. At least two people should have dual responsibility for the maintenance of Scrip records. Scrip should be treated similar cash, once purchased by the participant, it is considered to be their responsibility. In the event that Scrip would be lost or stolen, the organization from which the Scrip was purchased could be contacted to identify the missing Scrip. Local stores could then be alerted to watch for the stolen Scrip.
- 6.** Scrip records should be audited or reviewed by the parish/school finance committee on a regular basis. Additionally, the Scrip records should not be stored with the Scrip, but in a separate area.

Employees of the parish/school are responsible for assisting in the safeguarding of Scrip. Responsibilities for safeguarding Scrip include supervising inventory counts and creating disbursements. A separate checking account should also be used for Scrip sales. As with all parish/school accounts, the Pastor must have signature authority on the Scrip account. An employee should be responsible for reconciling the Scrip checking account.

E. The Accounting for Scrip

The proper accounting for Scrip is very important, both for safeguarding purposes and to quantify the profit. For accounting purposes, your parish's/school's records should reflect a Scrip Checking account, a Scrip Inventory account, and a Scrip Fundraising account (will reflect net profit).

As noted above, a separate checking account should be set up for Scrip. This account should be used to deposit Scrip income, pay for Scrip inventory, and may also be used to purchase school items with excess funds. (This allows a parish/school to see exactly what the profits are being used for. It reinforces an appreciation for the program and encourages others to participate when participants see a tangible benefit.) Proper approval must be received prior to any purchase. An alternative would be to transfer excess funds into the general operating checking account, and purchases made as usual.

Scrip inventory should be maintained under the inventories accounts in QuickBooks.

The Fundraising Accounts for the current COA are under account number 435 - Fundraising. The parish and/or school should assign a subaccount number to designate as Scrip. These accounts are intended to report net profit for the program.

Journal Entries for school under the current COA are as follows which are required to be updated at minimum twice a year (12/31 and 6/30):

1. How to enter payment for Scrip purchase, typically through ACH

	<u>Debit</u>	<u>Credit</u>
Inventory	900	
Scrip Checking		900

2. How to book deposit from Scrip sale

	<u>Debit</u>	<u>Credit</u>
Scrip Checking	950	
Fundraising		950

To record the actual sale

B. The following journal entry will required to be entered to help clear the inventory after Scrip is sold

	<u>Debit</u>	<u>Credit</u>
Fundraising	900	
Scrip Inventory		900

To remove the inventory of Scrip sold and record the cost

3. How to make purchases using Scrip funds

	<u>Debit</u>	<u>Credit</u>
Library books	50	
Scrip checking		50

Please note that all purchases of Scrip are recorded in the checking account and the inventory account. The sales of Scrip should be recorded in the Scrip Checking Account, Inventory and the Scrip Fundraising Account. (Since the Fundraising account is a net account, it has two entries at the time of the sale – once for the income generated by the sale and once for the cost of the certificates sold.)

The use of excess funds to purchase items for the parish/school should debit (increase) the applicable expense account and credit the appropriate checking account. The use of excess funds to purchase items for the parish/school should not result in any charges against the Scrip Fundraising Account.

Note: For other programs similar to Scrip (e.g. certificates purchased from Quick Trip at a discount and sold for face value), please use the same accounting procedures as noted above. Further, we recommend that you follow the IRS guidelines noted above.