



DIocese OF CHARLOTTE PASTORAL CENTER



LETTER OF COMMENT NO. /

November 20, 2007

Mr. Russell G. Golden  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

File Reference – Proposed FSP SOP 94-3-a and AAG HCO-a

Dear Mr. Golden:

The Accounting Practices Committee of the United States Conference of Catholic Bishops (USCCB) is pleased to offer its comments on the above referenced document.

Our response is on behalf of 195 (arch)dioceses and more than 600 religious institutes of the USCCB, Leadership Conference of Women Religious, and Conference of Major Superiors of Men. These organizations operate and sponsor thousands of religious, educational, charitable and other not-for-profit entities throughout the United States, collectively known as the Catholic Church.

The USCCB Accounting Practices Committee consists of eleven fiscal officers from (arch)dioceses throughout the United States, four members representing religious orders, and two advisors from public accounting firms, all of whom are Certified Public Accountants.

At a recent meeting, the Committee spent considerable time discussing the above-referenced proposed FASB Staff Position (FSP). The Committee concurs with most of the proposed guidance in the FSP with the exception of the amendment to the definition of majority voting interest in the board of another entity.

Paragraph 8 of the FSP states that “An organization shall be deemed to have a *majority voting interest in the board of another entity* whenever it has direct or indirect ability to appoint individuals that together constitute a majority of the votes of the fully constituted board (that is, including any vacant board positions). Those individuals are not limited to the organization’s own board members, employees, and officers.” As applied to parishes within various

(arch)dioceses throughout the United States, the implementation of this proposed definition of a majority voting interest in the board of another entity would result in an application that does not reflect the true status of Catholic organizations and would produce inconsistent application of the rule depending on the configuration of parishes and other institutions under local civil law.

The Catholic “Church operates in two spheres, both in the ecclesiastical and in the secular”<sup>1</sup>. In the ecclesiastical realm, it is governed by the Code of Canon Law. “The Code of Canon Law speaks of three types of ‘persons’ who are entrusted in various ways with carrying out this mission.”<sup>2</sup> “The third category comprises public juridic persons, i.e., artificial persons who, in Canon Law, are subjects of rights and obligations.”<sup>3</sup> Parishes of a(n) (arch)diocese are considered to be such public juridic persons, as defined in Canon 515. Under Canon 515, a *priest (pastor) is entrusted with the care of the parish. The governing duties of the pastor include those of a financial administrator. In accordance with Canon 1279, “the pastor acts in the name of the parish in all juridic affairs and must faithfully observe the canons regarding administration of parish property.”*<sup>4</sup> *The pastor alone represents the parish and acts in its name. The use of all receipts and disbursements are under the control of the pastor, unless diocesan or civil law provides otherwise. With this level of independence and responsibility, a parish is not under the effective control of the diocesan bishop or the diocesan administration. This occurs even in instances in which the civil law structure of a parish includes a governing board. In those instances, the pastor under Canon Law would retain the ability to override the directives of the governing board.*

Further, while the draft statement assumes that the power of appointment implies control, Canon Law imposes real limits upon the power to direct the use of assets of public juridic persons. In at least one recent case involving the dissolution of a parish by a local bishop, it was made clear under Canon Law that the assets of the dissolved parish were the property of the parishes assuming the spiritual care of the former parishioners rather than the property of the (arch)diocese. The administration of parish property must follow these canons throughout the universal Church, i.e., inside and outside of the United States.

In American civil law, property may be owned by a corporation sole vested in the bishop or the (arch)diocese or as separate corporations. Accordingly, parishes throughout the United States may be configured differently according to the civil law of the localities in which they are located. Under the proposed definition in paragraph 8 of the FSP and depending upon the particular civil law under which a parish is incorporated, that parish’s financial statements would be required to be consolidated into the (arch)diocesan financial statements for external financial reporting purposes, assuming the economic interest test is met. A similar parish in another (arch)diocese, which under Canon Law is also subject to the same rights and obligations, would either not be required or permitted to consolidate its financial statements into the (arch)diocesan financial statements, solely based upon the civil law under which it operates.

Given that, canonically, each parish is subject to the same rights and obligations, we believe that the application of the proposed definition in Paragraph 8 of the FSP would result in varied external financial reporting results for (arch)dioceses of the Catholic Church throughout the United States even though they are configured similarly under their ecclesiastical realm. In this particular instance, form over substance would prevail in the external financial reporting of the

Accordingly, we suggest that further consideration be given to the application of this proposed requirement as it pertains to religious institutions in general and to the Catholic Church in particular. We respectfully request that consideration be given to adding the following sentence to paragraph 8 of the FSP:

“The direct or indirect ability to appoint a majority of the votes of a fully constituted board of an organization sharing common religious beliefs would not require the consolidation of that organization into the appointing authority if consolidation would be contrary to the religious organization’s self-understanding or internal law, i.e., when there are limits imposed on the subsequent authority of the appointed members and/or the one making those appointments.”

Thank you for your attention and consideration of this matter of concern to our Committee. If we can be of any further input or assistance, please do not hesitate to contact me.

Very truly yours,



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<sup>1</sup> Pg.13, Church Finance Handbook, Canon Law Society of America, The Catholic University of America, 1999

<sup>2</sup> Pg.3, Ibid.

<sup>3</sup> Pg.4, Ibid

<sup>4</sup> Pg.115, Ibid