

CHAPTER V: CLERGY DISCRETIONARY FUNDS

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Introduction

The Episcopal Church has developed these guidelines for the benefit of clergy, dioceses, congregations, institutions, and others with authority over funds of the Church. The purpose of these guidelines is to provide information and guidance in the structure and use of a class of temporarily restricted or designated funds generally known as clergy discretionary funds. Throughout this Chapter, all comments referring to congregations apply also to dioceses. The term “clergy” is meant to include bishops.

Section A. Authority

The existence and use of clergy discretionary funds rest on the canonical authority of the Almoner’s Fund described in Title III, Canon 14, Section 2(f), of the Canons of the Episcopal Church:

“The Alms and Contributions, not otherwise specifically designated, at the Administration of the Holy Communion on one Sunday in each calendar month, and other offerings for the poor, shall be deposited with the Member of the Clergy in charge of the Parish or Mission or with such Church officer as shall be appointed by him, to be applied by him or under his superintendence, to such pious and charitable uses as shall by him be thought fit. During a vacancy, the Vestry shall appoint a responsible person to serve as Almoner.

The Almoner’s Funds, generally known as clergy discretionary funds, have a long history of customary use in the Episcopal Church. The member of the clergy in charge of a congregation customarily has a special fund made available by the Vestry, the expenditure of which is under the authority of the cleric. The member of the clergy in charge of the congregation also may grant assistant clergy, depending on local custom, permission to expend monies from the discretionary fund, or the Vestry may establish separate funds for the use of the assistant clergy.

Section B. Sources

The Canon referenced above is generally interpreted to mean that, at a minimum of one Sunday a month, the loose offering at the Holy Eucharist is designated for the clergy

discretionary fund. A congregation may wish to set aside a budgeted amount for the discretionary fund in addition to the traditional source or as a substitute for it. Some congregations as a matter of policy designate all fees or gifts received for weddings, funerals, and baptisms into the discretionary fund. Individuals may also contribute to the fund with occasional gifts.

Section C. Records

All checking accounts for clergy discretionary funds must be approved by the Vestry, and be opened using the congregation's Federal Employer's Identification Number. The bank accounts must be in the name of the congregation and not that of the individual member of the clergy. The discretionary funds are subject to audit and are included in financial reports following standard accounting procedures. Discretionary funds remain with the congregation when the clergy departs.

There are two practices for the administration of discretionary funds.

All income received is deposited in the general operating account of the congregation. Disbursements from the fund are by check drawn on the general operating account upon written request of the authorized member of the clergy or other appropriately authorized individual.

Vestries may approve the use of a separate checking account for the discretionary fund. Under these circumstances, all income from any source to the fund must be deposited to the congregation's general operating account, recorded on the books of the congregation, and subsequently transferred by the treasurer to the separate checking account. No monies from any source are to be deposited directly into the separate checking account. The co-mingling of personal funds of any kind with discretionary funds is always improper.

Example of name of account: Good Shepherd Episcopal Church
 Rector's Discretionary Fund

Section D. Accountability

1. Clergy who have been authorized to maintain and manage a separate checking account must record in writing, with appropriate receipts attached, the purpose of every check drawn on the account and any cash disbursement made.
2. Monthly bank statements are to be mailed directly to a person of trust other than the individual authorized to make disbursements. Normally, this is the treasurer, but the Vestry may ask that another person, such as the senior warden, receive the statements.
3. The person receiving the statements will verify that all deposits made into the account correspond to disbursements from the general operating account to the separate checking account; review all checks as to payee and who endorsed them; reconcile the checking account, and review all back-up invoices and/or letters. This individual will state in writing on the monthly statement that all verifications were made and, finally, file the bank statements with the other financial records of the congregation.

4. It is preferable that checks be written to vendors, such as a utility company or landlord, rather than to individuals requesting assistance. In most areas clergy have made prior arrangements with drug stores, gas stations, grocery stores, etc. to have persons make purchases with approval of the clergy, and a check is written directly to the vendor upon receipt of a bill. Cash disbursements are discouraged, and should only be made when there is a real emergency and a check cannot meet the needs. If cash is disbursed, full documentation must be maintained stating to whom the funds were given or a description of the person, such as a parishioner or street person, the date given, amount, and a full explanation for the expended funds.
5. All clergy discretionary funds are classified as temporarily restricted funds of the congregation. As such, these funds are subject to audit even if they are kept in a separate checking account. However, the individual responsible may be permitted to maintain confidentiality over the expenditures of the fund disbursed for the direct assistance of named individuals. The manner in which this is done must be determined and jointly agreed to by the responsible individual and the Vestry.
6. The individual responsible for discretionary funds must follow the record keeping methods detailed in this Manual. These methods are designed to provide trustworthy accounting and stewardship of church funds, as well as to protect responsible persons from suspicion and mistrust. Clear records of deposits into the fund and expenditures from it are essential to this process.

Section E. Uses

1. The appropriate and traditional use of clergy discretionary funds is to address needs among congregation and community members. Payments for food, rent, utilities, medical bills and the like for persons in need are typical uses of these funds.
2. An inappropriate use is to meet expenses which normally should be covered by the operating budget. Vestries should budget for the expenses that are necessary to carry out the clergy person's ministry. However, if funds are not provided by a budgeted line item, a written policy established by the Vestry and included in its minutes may authorize such expenditures. Examples of these expenses are attendance at conferences, purchases of books and journals, entertainment of individuals with a purpose directly related to the congregations' ministry, and professional membership in organizations related to the ministry, such as the Clergy Association. Discretionary funds should not be used to sustain the ongoing operations of the congregation, and must follow the guidelines of the Internal Revenue Service for appropriate business expenses. Any books, vestments, equipment, or other tangible business items purchased with discretionary funds, are the property of the congregation and, therefore, must stay with the congregation when the cleric leaves, unless the cleric pays the Fair Market Value for the item to own it.
3. Prohibited uses of discretionary funds are payments for anything that personally benefits the authorized clergy. Therefore, neither personal clothing, food, books, rent, utilities, insurance premiums, medical expenses of the cleric, are appropriate expenditures by or through discretionary fund accounts. If any portion of a discretionary fund is used for personal use, that portion will be added to taxable

income of the individual receiving the benefit. The individual misusing the funds may be exposed to civil and/or criminal liability.

Section F. Tax Consequences

Gifts for a properly established discretionary fund, which is fully accountable to the Vestry, are deductible by donors as charitable contributions.

Contributions made to the discretionary fund for the direct benefit (pass through) of a named individual are not deductible contributions for income tax purposes, and should not be accepted.

When discretionary funds are used to provide a gift to an employee, the value of the gift may need to be reported on the individual's W-2 form.