

## CHAPTER V: CLERGY DISCRETIONARY FUNDS

### CHAPTER CONTENTS

<i>Introduction</i> .....	V-1
<i>Section A. Sources of Funds</i> .....	V-2
<i>Section B. Uses of the Funds</i> .....	V-2
<i>Section C. Accounting Recordkeeping</i> .....	V-3
<i>Section D. Tax Consequences</i> .....	V-4

#### **Introduction**

These guidelines are for clergy, dioceses, congregations, institutions, those with authority over church funds, donors of monies to be distributed by clergy for charitable uses. The guidelines provide information and direction in the structure and use of restricted or designated funds, generally known as “clergy discretionary funds.” These are funds owned by a church entity (typically a parish or a diocese) that may be distributed at the sole discretion of an individual (typically a parish rector or diocesan bishop) rather than that of a governing body (e.g., a vestry or diocesan council). This Chapter discusses funds distributed at the discretion of parish rectors, but the guidelines also apply to funds distributed at the discretion of other clergy, including bishops, serving in other church capacities, as well as funds established for discretionary disbursement by laity serving the Church.

The existence and use of clergy discretionary funds in The Episcopal Church largely rest on Church Canon, III.9.6(b)(6), regarding “almoner’s funds,” as well as a long tradition implementing this canon in our congregations. The canon, originally adopted in 1814, provides as follows:

“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 Rector or Priest-in-Charge or with such Church officer as the Rector or Priest-in-Charge shall appoint to be applied to such pious and charitable uses as the Rector or Priest-in-Charge shall determine. When a Parish is without a Rector or Priest-in-Charge, the Vestry shall designate a member of the Parish to fulfill this function.”

### **Section A. Sources of Funds**

1. The canon quoted above is generally interpreted to require that on one Sunday a month, when the Eucharist is celebrated at the parish's principal service or services, the "loose offering" – that is, gifts exclusive of payments toward a member's annual pledge – be designated for the rector's discretionary fund, primarily for the aid of the needy. Other church entities (such as dioceses) may also establish discretionary funds, although not required to do so by canon.
2. Because the loose offering is often insufficient for the discretionary fund, many vestries set aside a monthly or annual budgeted amount for the rector's discretionary fund in addition to the traditional source or as a substitute for it. Some parishes have trusts the income of which has been designated for the discretionary fund. Parishioners, visitors, friends of the rector, and others traditionally have made contributions to the rector's discretionary fund, sometimes in significantly larger amounts than those contributed by the vestry. In some congregations the vestry follows a policy of designating fees or gifts received in connection with weddings, funerals, and baptisms for the discretionary fund of the clergy person performing those services.

### **Section B. Uses of the Funds**

1. The "alms" canon quoted above provides that gifts and "other offerings for the poor" collected in the parish are to be "applied to such pious and charitable uses as the Rector or Priest-in-Charge shall determine." Therefore, it is generally recognized that the rector's discretionary fund is to be used for aid to the poor and other purposes that the rector considers "pious and charitable," uses that are consistent with the Church's mission. It is clear that the scope of permissible uses under the canon generally lies within the sound discretion of the rector.
2. The canon does indicate some limitations on the rector's discretion. Since the alms are donated to the parish (the manner of holding the funds is discussed below), and the intended uses are to be "pious and charitable," the funds may not be used as if they were individual or personal gifts to the rector. Thus, it would be improper for the rector to apply the funds for his or her personal use and benefit, that is, uses that are not intended to carry out the mission of the Church. Using the funds for personal or family clothing, entertainment, or basic living expenses is not appropriate, whereas those same uses, when intended to benefit needy persons within or without the parish, are wholly appropriate.
3. Gray areas include payments by the rector to institutions or causes that are charitable in nature but also inure to the benefit of the rector in some way. For example, a donation to the rector's school or college may be considered inappropriate if there would otherwise be little or no reason for the parish to favor such an institution; donations to the rector's seminary, on the other hand, may be

regarded as appropriate if they are understood to be parish gifts in which the rector has joined.

4. To avoid potential confusion and criticism, the rector should inform the vestry when gifts are made from the discretionary fund about which there could be any question, particularly gifts to institutions as opposed to gifts to private individuals, where pastoral sensitivity warrants confidentiality.
5. A further limitation on the rector's discretion can be seen in the canon's directive that gifts to the parish intended as alms be used at the rector's discretion. The inference here is that canonical discretionary funds are not intended to be used for expenditures that are routinely made from a vestry's budget. Thus, it is inappropriate for the rector to use the funds on parish maintenance or projects, or for the rector's liturgical ministry, such as vestments, that are generally funded through the parish budget. Expenditure for a purpose that the vestry has declined to fund, for example, would not be an appropriate use of discretionary funds.
6. The rector may grant permission to assistant clergy to expend monies from the rector's discretionary fund, or the vestry may establish, and others may contribute to separate funds for the use of assistant clergy.

### **Section C. Accounting/Recordkeeping**

1. All deposit accounts for clergy discretionary funds should be approved by the vestry and be opened using the congregation's Federal Employer Identification Number. The bank accounts should be in the name of the parish and not that of the rector or another individual member of the clergy. Discretionary funds are subject to audit and are included in financial reports following standard accounting procedures. Discretionary funds should remain with the parish when the clergy departs.
2. There are two common practices for the administration of discretionary funds. All gifts received may be deposited in the congregation's general operating account, with disbursements made by checks drawn on the general operating account upon written request of the rector or other authorized clergy or lay person. Or, the vestry may approve the use of a separate checking account for the rector's discretionary fund.
3. The rector or other person authorized to make payments from the fund will maintain confidentiality over expenditures made to assist named individuals in a manner determined and jointly agreed to by the rector or other authorized person and the vestry.

4. Clergy disbursing monies from a discretionary fund should keep detailed records, including receipts, regarding each disbursement. Those detailed records should be reviewed annually with a trusted individual, perhaps an accountant conducting the audit. Otherwise, the clergy person should report regularly to the vestry regarding disbursements from the fund, describing in general terms how the funds have been used while protecting the names of the recipients.
5. Monthly bank statements for a separate checking account should be mailed directly to a person of trust other than the rector or other member of the clergy authorized to make disbursements. Normally, this is the Treasurer of the parish, but the vestry may direct that another person, such as the senior warden, receive the statements.
6. The person receiving the statements for a separate checking account should verify that all payments from the general account of the parish have been deposited into the account; review all checks to payees and who endorsed them, as well as the purposes noted in the check register or on the cancelled checks; reconcile the checking account; and review all back-up invoices and/or letters. This individual should 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 parish. Discretionary funds are “temporarily restricted” funds of the parish and are subject to audit even if they are kept in a separate checking account.
7. Checks should be written to a vendor, such as a utility company or landlord, rather than to individuals receiving assistance. Clergy commonly arrange with drug stores, gas stations, grocery stores, etc. for people to make purchases with clergy approval. Checks from the discretionary fund are written directly to the vendor upon receipt of bills. Cash disbursements should only be made for small amounts or in an emergency where a check cannot meet the needs.
8. Following these procedures provides trustworthy accounting for and stewardship of church funds and protect responsible persons from suspicion and mistrust. Thus, clear records of deposits and expenditures are essential. Parishes and other entities with discretionary funds might consider adopting a written policy addressing the points set out in this Chapter.

#### **Section D. Tax Consequences**

1. Gifts for a properly established discretionary fund are generally deductible from federal and state taxation by donors as charitable contributions .
2. Contributions made to the discretionary fund for the direct benefit of a named individual (“pass through” gifts) are generally not deductible charitable contributions and should not be accepted.

3. 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.
4. Any payments from the discretionary fund to the rector for personal, rather than charitable, purposes as discussed above will likely be treated as taxable income to the rector.

**Last update November 2019**