

## CHAPTER V: CLERGY DISCRETIONARY FUNDS

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#### **Introduction**

These guidelines are intended for the benefit of clergy, dioceses, congregations, institutions and others with authority over funds of the Church, as well as for the benefit of those wishing to give monies to clergy for charitable uses. The purpose of these guidelines is to provide information and guidance in the structure and use of a class of restricted or designated funds generally known as “clergy discretionary funds.” The thrust of this Chapter is to deal with funds given to and used by rectors of parishes, but the guidelines generally would also apply to other clergy, including bishops, serving in other church capacities. These guidelines would also apply when discretionary funds are established for laity serving the Church.

The existence and use of clergy discretionary funds largely rest on a canon of the Church, III.9 5(b)(6), regarding “almoner’s funds,” as well as a long tradition implementing this canon in our congregations. The canon 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 with such Church officer as the Rector shall appoint to be applied to such pious and charitable uses as the Rector 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 mean 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, is designated for the rector’s discretionary fund. However, because the loose offering is often considered insufficient for the

purposes of 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. Parishioners, visitors, friends of the rector, and others have traditionally made contributions to the rector's discretionary fund as well, sometimes in significantly larger amounts than those contributed by the vestry. In some congregations the vestry also follows a policy of designating fees or gifts received in connection with weddings, funerals, and baptisms for the discretionary fund of the member of the clergy performing those services.

2. The rector may grant assistant clergy permission 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 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 shall determine." Pursuant to this canon, it has generally been recognized that the discretionary funds of a rector are to be used for aid to the poor and other purposes that the rector considers "pious and charitable," and that these uses are regarded as consistent with the Church's mission. It seems 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 Church (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 gifts to the rector individually and personally. 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. Uses of the funds for personal or family clothing, entertainment, or basic living expenses may not be selected, whereas those same uses when intended to benefit other needy persons within or without the parish are commonly considered to be wholly appropriate.
3. Gray areas would 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 from the discretionary fund are made about which there could be any

question, particularly gifts to institutions as opposed to gifts to private individuals where pastoral sensitivity may well warrant 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 to be drawn from this direction is that the canonical discretionary funds are not intended to be used for types of expenditures that are routinely made from a vestry's budget. Thus, it would seem to be inappropriate for the rector to use the funds on parish maintenance or projects, or even expenditures 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 seem to be an appropriate use of discretionary funds.

### **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's Identification Number. The bank accounts should be in the name of the congregation and not that of the rector or other 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 congregation when the clergy departs.
2. There are two common practices for the administration of discretionary funds. All gifts received may be deposited in the general operating account of the congregation, with disbursements made by checks drawn on the general operating account upon written request of the rector or other authorized member of the clergy or laity. Or, the vestry may approve the use of a separate checking account for the rector's discretionary fund.
3. Clergy who have been authorized to maintain a separate checking account should record in writing, with appropriate receipts attached, if any, the purpose of every check drawn on the account and all subsequent cash disbursements made where checks have not been made to "cash" to enable such disbursements.
4. 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.
5. 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 congregation. Discretionary funds are “temporarily restricted” funds of the congregation and are subject to audit even if they are kept in a separate checking account.

6. It is preferable that checks be written to a vendor, such as a utility company or landlord, rather than to individuals requesting assistance. Clergy commonly make prior arrangements with drug stores, gas stations, grocery stores, etc. to enable persons to make purchases with approval of the clergy, and checks from the discretionary fund are written directly to the vendor upon receipt of bills. Cash disbursements are discouraged and should only be made for small amounts or when there is an emergency and a check cannot meet the needs.
7. The rector or other person authorized to make payments from the funds may be permitted to maintain confidentiality over expenditures made for the direct assistance of named individuals in a manner determined and jointly agreed to by the rector or other authorized person and the vestry.
8. These procedures are designed to provide trustworthy accounting and stewardship of church funds to protect responsible persons from suspicion and mistrust. Thus, clear records of deposits into the fund and expenditures from it are essential to this process.

#### **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 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 be treated as taxable income to the rector.