



# THE DIOCESE OF ARKANSAS

*The Episcopal Church in Arkansas*

14 August 2007

To members of the clergy and treasurers:

The canons of the Episcopal Church provide for the receiving of money into a discretionary fund and their expenditures for charitable work. In that donations to this fund are tax deductible, the Internal Revenue Service often checks into how these funds are being distributed. Their improper use has been cause for concern in many instances. Therefore I want to share with you the relevant canon of the church, the policy of the national church contained in the *Manual of Business Methods in Church Affairs*, and some comments on these statements.

## **Canon III.9.6 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 offering 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.”

## **The Manual of Business Methods in Church Affairs**

*The Episcopal Church published this manual in 2000 in accordance with the canons of the church and resolutions of General Convention. It states in part:*

“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 cleric departs.”

If there is a separate checking account for the fund, “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.”

An example of the name of an account:        Good Shepherd Episcopal Church  
Clergy Discretionary Fund

“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 disbursements made.”

“Monthly bank statements are to be mailed directly to a person of trust other than the individual authorized to make disbursements.”

“It is preferable that checks be written to vendors...rather than to individuals.”

“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.”

“Any books, vestments, equipment, or other tangible business items purchased with discretionary funds are the property of the congregation.”

“Prohibited use of discretionary funds are payments for anything that personally benefits the authorized clergy.”

“The individual misusing the funds may be exposed to civil and/or criminal liability.”

“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.”

### **Comments on these Business Methods**

Please note that discretionary funds are in the name of the church, not the individual member of the clergy, and the tax ID number on file at the bank is that of the church. Thus, bank statements go to the church office. Vestries should authorize appropriate persons to review the account so that the confidentiality of the names of the recipients of charitable assistance is maintained. There should be only one discretionary fund in each congregation regardless of the number of priests and deacons in that congregation.

Vestries in congregations whose fund does not meet these standards should stop transferring money to the fund until appropriate policies are in place.

If a member of the clergy receives a monetary gift, he or she has the option of declaring it as personal income and depositing it in his or her own account, or turning it over to the

church for deposit by the treasurer into the appropriate church fund. Many congregations have policies, often stated in letters of agreement with their priests and deacons, that money received from parishioners for providing pastoral services for weddings, funerals, etc., will be turned over to the church for deposit into the discretionary fund or another appropriate church fund. Vestries should be clear with their priests and deacons about such policies.

The discretionary fund is for charitable purposes; it is not to be used for the normal operating expenses of the congregation or for the personal use of a priest or deacon.

There are some significant reasons why we need to follow these policies. First, members of the clergy and members of the vestry will be protected should the IRS begin to investigate the use of the discretionary fund in your church. Second, and even more importantly for the long term health of the church, individuals' willingness to give their offerings to these and other church funds will increase with the level of transparency with which transactions are reported and the assurance donors have that the money will be spent in accordance with the purposes for which it was given.

I thank you in advance for your attention to this matter. If you have further questions, please call the diocese's financial administrator, who can help you revise your policies to be in line with IRS regulations and church business policies.

With every best wish I remain

Faithfully yours,

Larry R. Benfield  
Bishop of Arkansas