Definitions for Church Finances (2/2015, TCP)
(for more info, see the Manual for Business Methods in Church Affairs)

Parochial Report: The annual report of membership, worship and financial statistics. Key figures reported include Active Baptized Members, Communicants in Good Standing, Average Sunday Attendance, Normal Operating Income, operating income & expenses, and total financial assets. This report is filed with the national church office and with the diocesan office. These figures are used for tracking vitality, and in establishing standards for clergy compensation, diocesan assessments and requests for pledges to the diocesan program budget.

Active Baptized Member: a Baptized person of any age, whether confirmed or not, whose name has been recorded in the parish register by Baptism or transfer from another congregation. Episcopalians require an official letter of transfer (avoids double-counting of Episcopalians whose membership is counted elsewhere). If the person has not worshipped with the congregation or contributed to its ministry for over one year, their status is changed to "inactive" and they are not counted for this statistic.

Communicant in Good Standing (often used as "Confirmed Communicant in Good Standing" for those confirmed or received in the Episcopal Church): An Active Baptized member who has received communion at least three times in the past year and who is faithful "in corporate worship, unless for good cause prevented," and "in working, praying, and giving for the spread of the Kingdom of God."

Average Sunday Attendance: Attendance is based on anyone who attended any part or whole of a worship service on Saturday evening or Sunday morning. Divide this total by the number of Sundays in which worship was offered. This is the key barometer for the vitality of any congregation. (hanging out in the kitchen doesn't count as attendance at worship)

Operating Income: income from pledges, "plate" (non-pledged Sunday morning donations), and any other income from operations. ***Also includes any savings (whether interest or principal) used to pay for operating expenses.*** Thus, even if a church runs an operating deficit (covered by its savings), the Total Operating *Income* will equal its Total Operating *Expenses*, because those savings were used for operations. Normal Operating Income is the basis for Diocesan Assessments. Therefore properly accounting for what is operating income or expense vs. what is *non*-operating is very important.

Normal Operating Income; Total Operating Income: NOI is all operating income *except* financial support from the Diocese. TOI includes financial support from the diocese.

Operating Expenses: expenses related to the regular operations of the church: salaries, maintenance, non-capital expenses, outreach, giving to the diocese, etc.

Non-Operating Income or Expenses: income or expenses used for capital projects or major improvements, special programs such as shelters or soup kitchens, Discretionary Fund expenses, and funds given to the church for other organizations (e.g. dues for Daughters of the King or donations for Church World Service). The Diocesan Assessment is only based on the <u>operating</u> income & expenses—not the non-operating figures.

Housing Allowance: a portion of clergy salary designated by the vestry as such. Provides for certain tax benefits for the priest, since the value of provided housing, and un-reimbursed housing expenses are tax exempt for ordained clergy.

Financial Definitions (continued):

Diocesan Assessments: Payments ***required*** by the diocesan office from each parish for specific ministries. In the Diocese of Atlanta, this is 10% of Normal Operating Income. This payment supports the Bishop and Bishop's staff, as well as other ministries of the Diocese (including support for mission congregations) and support for the national church ministries. The Diocesean budget that spends these funds is determined by the annual Diocesan Council, of which clergy and lay representatives from each parish are a part.

Permanently Restricted Funds: money restricted by the donor so that the principal (including capital gain or loss) *cannot ever be spent*. The fund produces investment income that can be restricted or unrestricted. The most common example is called an "endowment" which earns interest to supplement operating income.

Temporarily Restricted Funds: money that can be spent, but only for purposes restricted by the donor. For instance, memorial funds collected for a building project, or income from a Cemetery Trust account (which can be spent on cemetery expenses).

Unrestricted Funds: money that can be spent for any purpose by the vestry. The vestry may designate certain funds for particular purposes, but as long as those funds were not restricted by the donor, the vestry can re-designate the purpose of those funds if they choose.

Vestry Designated Funds: unrestricted money that the vestry has set aside for specific purposes. Unlike money set aside by a donor, vestry designated funds can be undesignated or re-designated by the vestry.

Annual Pledge/Pledge Income: unrestricted money pledged (or received against that pledge) for the coming year by the parishioners for operations. The pledge is used for budgeting and as a discipline for giving. The **"tithe"** is the historic standard for Christian giving: 10% of income.

Plate income/ plate offerings: collections from worship services of unrestricted cash donations (does NOT include donations that go toward a member's annual pledge).

Discretionary Fund: used by the clergy use to support people in need. The fund expenses are audited, but otherwise kept confidential—used at the discretion of the priest. The audit assures that the priest is not misusing these funds (they are not for personal use). The fund receives income, usually, from the plate offerings from the first Sunday of the month (non-operating).

(2/2015, TCP)

The Strange World of Clergy Compensation (2/2013, TCP)

Clergy Tax Rules:

For centuries, it was common practice to provide housing for the pastor (a house called the "Parsonage" or "Manse" or (for Episcopalians) "Rectory"). To avoid tax shelters (such as a General Motors CEO living in a mansion owned by the company instead of taking income—in order to avoid income taxes) the US government considers the fair rental value of provided housing as taxable income. Since this would be quite a burden on clergy (whose income is generally modest to begin with), or the congregations that employ them, the **IRS has for decades *exempted* the value of housing for ordained clergy for income taxes**. So, unlike the General Motors CEO, clergy do not have to pay tax on the value of church provided housing. **However, the value of housing is *included* in income for the purposes of Social Security and Medicare taxes for clergy.**

Because of these rules, things get complicated quickly. If a priest owns his or her own home, the priest can exempt a portion of income used to pay for housing expenses, *as long as the church has designated this portion as housing allowance ahead of time.* The allotment of housing allowance has no impact on the church finances, but allows the priest to claim the exemption up to the amount of the allowance, or the fair rental value (assumed furnished) or the actual expenses, whichever is the lowest of the three. Even for clergy who live in a rectory, some unreimbursed expenses can still be considered housing expenses, therefore clergy are wise to ask vestries to allocate some of the cash salary as housing allowance.

One odd impact of these laws is that **clergy are (normally) considered "employees" for federal income tax purposes, but are treated as "Self Employed" for Social Security and Medicare tax purposes.** Parishes may not make FICA payments on behalf of the priest. The priest then pays the full 15.3% Social Security & Medicare taxes (applied to income that *includes* the value of provided housing and utilities as well). To make this easier, clergy often have more income tax withheld; the annual tax return then allocates this surplus to the Social Security/Medicare tax ("Self Employment tax").

Pension benefits:

The Church Pension Fund calculates mandatory pension assessments for parishes based on various factors of compensation, including cash, housing allowance, utility payments for rectories, and the fair rental value of housing. They calculate the value of housing as 30% of cash income and utility payments (but not including housing allowance). The assessment is 18% of "pension-based income."

Thus, assuming a priest lives in a rectory and earns a $52,930 cash income (the midpoint salary for a family-sized church rector, 2013 standards): **Note: total parish costs below= $99,344.**

Form:	Value:	Covers:	
CASH:	$52,930	Salary + offsets for ½ of social security taxes* Housing allowance**	Social Security taxes all this
Payment:	$3,700	est. Rectory Utility costs paid by the church**	
Rectory:	$17,000	"fair rental value" of the rectory**	
Payment:	$13,254	Pension (18% of all above figures)	
Payment:	$29,460	Health Insurance, family plan, EPO 90, 2013	

* federal taxes apply to this portion……………**exempt from federal income taxes