Clergy Discretionary Accounts  
Model Policy Guidelines

The following policy guidelines apply to any discretionary bank account maintained by any clergy (or Vestry-authorized lay person) of *Parish Name*.

The use of discretionary funds can have significant personal consequences for all parties involved. Income tax regulations are such that even the best intentions in the use of discretionary funds, if not properly executed and documented, can result in adverse consequences for clergy as well as donors and/or recipients of discretionary funds. Income tax consequences aside, if discretionary funds are used for inappropriate purposes such uses may violate implicit understandings of the donor(s) and the parish as a whole.

These guidelines are intended to assist the clergy and parish in developing a mutual understanding of the appropriate purposes for which discretionary funds may be used, and the proper administration and documentation of discretionary fund accounts.

**The Canonical Basis for Discretionary Funds**

Discretionary funds are to be used for the poor and for other charitable and pious purposes. Gifts to the poor are the primary purpose, and payments for food, rent, utilities, medical bills and the like for persons in need are typical uses of these funds. Other charitable and pious purposes would include gifts to any recognized charitable organization (the same ones to which an ordinary individual could make a deductible gift). However, the purpose of any such recognized charitable organization, as well as the purpose of any discretionary fund gift to that charitable organization, must be consistent with the primary purpose of providing aid to the poor.

The Canons of the Episcopal Church USA say nothing about discretionary funds by name. The origin of discretionary funds may lie in Title III, Canon 9.5(b)(6), dating back to 1814, which states:

"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."

It is now often customary to supplement the discretionary fund with gifts from individuals and also from the church’s general operating funds.
A person administering discretionary funds is in a position similar to that of a trustee, managing funds that belong to the church. He or she is responsible for handling funds that are not their own property. That person is therefore obligated to be a good steward of those funds: to handle them with a high degree of care; to not waste the funds; to not let them be commingled with personal funds; and to use them for the purposes for which they were entrusted to their care. There is also a special duty to preserve, to the greatest extent possible, the confidentiality of the recipients of discretionary fund payments.

**Specific Guidelines**

1. Each discretionary account is the property of the parish, not the clergy. Each discretionary account must be titled in the name of *(Parish Name)*, using the parish’s Federal Employee Identification Number. The accounts, as are all parish accounts, are subject to independent audit and are included in the financial statements of the parish. Discretionary funds remain with the parish when the administering clergy departs.

2. 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 transfers should be made on a timely as well as efficient basis—ideally no later than simultaneously with the next general issuance of checks to pay operating expenses of the church.

Money, which is thus deposited and transferred, is not considered in NOI for assessment purposes.

Co-mingling of personal funds with discretionary funds is improper.

All deposits to any clergy discretionary account will be made by a non-clergy person other than the persons referred to in following items #7 and #8.

The use of a debit card to access funds in any clergy discretionary account is prohibited.

3. Gifts to a clergy person (as well as payments, be they either fees charged or gifts, for services rendered to non-(Parish Name) parishioners on such occasions as weddings or funerals) are not gifts to the parish and are not deductible for income tax purposes by the donor, and are taxable income to the clergy. Such gifts/payments must not be deposited to a discretionary fund. If a recipient of clergy services wishes to make a gift to a discretionary fund in gratitude for such services, the serving clergy should instruct the donor to make the purpose of the gift clear by making a check payable to the title of the discretionary fund, not to the clergy. Should the serving clergy wish to donate such payments to their discretionary fund, even if not requested by the recipient of clergy services, they should deposit the payment to their own personal account and then draw a check from their own account payable to the discretionary fund.
4. Expenditures from discretionary funds are at the discretion of the clergy (or any Vestry-authorized lay person), although a second signature on each disbursement may be required. It is preferable that checks be written to vendors, such as a utility company or landlord, rather than to individuals needing assistance. *(Parish Name)* clergy are encouraged to make arrangements with restaurants, drug stores, gas stations, grocery stores, etc. to have persons in need make purchases with approval of the clergy, and to allow clergy to pay for such purchases with a check written directly to the vendor upon receipt of a bill.

When such direct vendor payments are not practical or feasible, a check directly payable to the individual needing assistance is acceptable. Checks payable to cash, and direct cash disbursements, are discouraged. However, it is recognized that the individuals receiving assistance may often find normal financial services unavailable and cash disbursements are the only practical form of payment that will enable the financial need to be met on a timely basis. Such cash payments should be made only when there is a real emergency and a check cannot meet the situation’s needs. The documentation to be maintained if cash or a check payable to cash is disbursed should state to whom the funds were given, the date given, the amount, and a thorough explanation for the expenditure including the reason the disbursement was made in the form of cash. The recipient should sign a receipt for the funds, to be kept as part of the discretionary account documentation. Absent such documentation the presumption to be refuted may be that the funds were converted to the clergy’s (or Vestry-authorized lay person’s) personal use.

5. Discretionary fund payments that personally benefit the clergy (or any Vestry-authorized lay person) responsible for the fund, or that clergy’s (or lay person’s) family, are prohibited.

6. Business or professional expenses related to clergy ministry are to be budgeted for and paid from the parish’s general operating account, not from a discretionary account. Without limiting the previous sentence, this specifically applies to payments for vestments, memberships, books, entertainment, seminar attendance or other forms of continuing education, subscriptions to periodicals, and meal expenses for clergy and/or staff. No church operating expenses are to be paid from discretionary accounts.

7. The monthly bank statement for each discretionary account is to be mailed directly to a person of trust not authorized to make disbursements from said account. This person is to be approved by the Vestry. Vestry will also appoint a representative to conduct periodic reviews of all discretionary account documentation.

8. The person receiving each discretionary fund bank statement will preserve the confidentiality of the recipients of discretionary fund payments; verify that all deposits made into the account correspond to disbursements from the general operating account to the discretionary account; review all discretionary account checks as to payee and endorser; reconcile the account, and review all supporting documentation. This person will initial each monthly statement signifying that all verifications were made and will file each bank statement and supporting documentation as part of the financial records of
the parish. This person will also make available all discretionary fund documentation to a Vestry representative for review on a monthly basis.

9. An annual report to the parish will be made summarizing (while preserving the confidentiality of recipients of discretionary fund payments) the flow of funds through each discretionary account. At a minimum, each report should show the beginning account balance, total dollar amount of both receipts and expenditures, and ending balance. The basic purposes of expenditures will also be summarized, indicating the total amount expended by category such as food, shelter, medical, transportation, etc.

10. All discretionary account records are to be made available to the independent auditor of the parish financial statements.