THE EPISCOPAL DIOCESE OF NORTHERN CALIFORNIA

TREASURER'S MONTHLY REPORT – SUPPLEMENTAL INSTRUCTIONS

~ Making Disciples, Raising Up Saints & Transforming Communities for Christ ~

TMR REPORTING

The Treasurer's Monthly Report is used to calculate parish apportionment. ONLY items that are reported on your Operating Statement (income statement) should be reported on the TMR. Activities within funds for non-operating purposes are not subject to apportionment and should not be reported on the TMR.

INCOME

Pledge & Plate Offerings .... **Line (a)**

Instructions: All non-designated offerings to be used for operating purposes.

Examples: Plate, pledge, Easter & Christmas offerings (unless these are designated for other purposes), any other undesignated offerings or collections.

Investment Income.. **Line (b)**

Instructions: Income from interest earned on operating fund accounts or investment earnings used for operations from investments or endowment accounts.

Examples: Interest or realized investment gains used to pay for operating expenses. *As an alternative, a transfer from investments could be recorded on line (h)*. Unrealized gains or losses and realized gains that are not being used to pay for current operating expenses should NOT be reported on the TMR.

Rental and Facilities Usage Income .... **Line (c)**

Instructions: All income from fees charged for the use of church facilities or other rental property.

Examples: Rental Income - Rents received from AA, Boy Scouts, use of your parish hall for a wedding, rental of a rectory to a third party and third-party schools.

Fundraising Events.. **Line (d)**

Instructions: Gross proceeds raised through fundraising events.

Examples: Fundraising - Gross income from fundraising events. Gross proceeds from events for restricted or designated purposes such as outreach should be shown here with corresponding expenses shown on line (l). The net proceeds might be transferred to a restricted fund on the Balance Sheet such as Capital Funds or Outreach in which the net amount would be transferred out on line (p). Alternatively, the designated funds could be spent for outreach or capital in the same year and would be deducted from apportionable income on line (i).

<u>Grants</u> .... Line (e)

Instructions: Grants received to subsidize the operation of the church.

Note: Some grants will not be subject to apportionment. If the Bishop's Office approves that the grant can be excluded from apportionment, the grant should be offset by a corresponding deductions on line (q).

<u>Other Operating Income</u> .... Line (f)

Instructions: This line would include all other income that does not fit into one of the above categories and is used for operating purposes.

<u>Restricted / Designated Offerings</u> .... Line (g)

Instructions: Offerings received <u>and reported in the operating statement</u> that are designated (restricted) for specific purposes. If designated offerings are not being reported on the operating statement (see Accounting for Restricted/Designated Funds below) then the offerings should NOT be reported on the TMR.

Examples: Contributions for Building or Capital funds, designated outreach, contributions for specific funds, such as a discretionary funds, altar guild, memorials, and endowment funds.

Accounting for Restricted/Designated Funds: This is one of the more challenging accounting issues for church treasurers. The objective is to make sure that the funds are spent as designated. There are a couple of different methods of accounting for designated contributions and tracking the use of these funds:

1. Record the contribution on the operating statement as designated or restricted gifts. It's best to have different detailed donation categories on the income statement so the gifts can be tracked. The income would be reported on line (g). Expenses for the designated purpose, i.e. outreach, would be made to the appropriate operating expenses account. Using this method, it's important to track income and expenses to ensure that at year-end any excess funds collected are transferred to a donor restricted funds for future use and deducted on line (p). The transfer must also be shown as an expense on the operating statement as a transfer to reserve funds.

2. Bypass the operating fund and the TMR entirely. Contributions to designated or restricted funds are credited directly to a designated or donor restricted fund on the Balance Sheet. If these funds are spent on non-operating costs (i.e. capital improvements, etc.), the expense can be charged directly to the fund and neither the donation or the expense is reported on the TMR. If the funds are spent for operating or outreach expenses, the expense should be reported on the operating statement and a transfer from the restricted or designated fund should be shown as income on the operating statement and reported on line (h).

Transfers from Subsidiary Funds for Operating Expenses .... **Line (h)**

Instructions: Any transfer from a subsidiary fund to cover expenses that are reported on the operating statement. The transfer must be shown as income on the operating statement.

Example #1: The church transfers funds from a unrestricted fund, reserve account, or other investment to pay for operating expenses.

Example #3: Designated/restricted donations have been recorded and set aside in a fund on the balance sheet. Expenses (i.e. outreach) are paid out of the operating fund and funds are transferred from the subsidiary fund to cover the expense. This is common where a church wants to show its outreach activity on their Operating statement.

Example #4: The church transfers funds from a capital fund to pay for a major expense reported on the operating statement and shown as a deduction on line (m).

DEDUCTIONS

Outreach

Outreach Expenditures .... **Line (i)**

Instructions: All direct outreach expenditures paid either from general operating funds or directly from restricted/designated offerings included in line (g) above. Outreach expenditures may also have been transferred into the Operating fund on line (h) as noted above.

Allocation of Costs due to Use of Facilities for Outreach Purposes .... **Line (j)**

Instructions: The diocese recognizes that churches realize costs in association with making their facilities available for outreach programs. Since the facilities usage income is included in Rental and Facilities Usage income, line (c) above, this section allows for a deduction of a reasonable amount of maintenance costs and utilities to recognize the cost to the church for making the facilities available for outreach purposes.

Only expenses that are directly affected by the facilities usage can be deducted. This includes expenses like utilities, maintenance costs, supplies, etc. Fixed expenses including insurance, property taxes, etc. cannot be deducted as an outreach expense.

Example #1: The church rents its parish hall for weekly AA meetings. The AA groups pay $200 per month for the use of the space. The church has to pay utilities costs and additional sexton time to clean the hall at an estimated cost of $100 per month. This $100 should be shown here as a deduction from income.

Example #2: The church has a homeless feeding program or an outside outreach group that doesn't pay for facilities usage. The church can allocate a portion of utility or other maintenance costs associated with this program as an outreach expense. Those costs (as in Example #1 above) should be shown here as a deduction from income.

Accounting: It is preferred that maintenance costs you want to offset against the use of your facilities for outreach purposes is grouped together and subtotaled in your Operating statement. If this cannot be done, there should be a clear system of how the expenses are being calculated, i.e. as a percentage of certain expense line items like utilities and maintenance costs.

Rental & Fundraising Expenses

Direct Expenses Applicable to Rental Income..Line (k)

Instructions: This line should be used for costs associated with the commercial rental of church owned property such as a rectory or other property that is rented out to tenants. It would also include the rent of church property for a school or for Sexton's quarters on church property.

Example: The church rents it's rectory to a third-party tenant. Costs associated with this rental (property taxes, utilities, and repairs) should be shown here as a deduction from income.

Accounting: It is preferred that facilities expenses that are appropriate for offsetting against rental income is grouped together and subtotaled in your Operating statement as noted above. Expenses would include utilities, janitorial services, insurance, building maintenance and repair, insurance, and property taxes.

Expense of Fundraising Events...Line (l)

Instructions: Expenses related to fundraising events for which the income is included in line (d) above. This does not include expenses associated with stewardship or pledge campaigns.

Example: Advertising, purchase of raffle prizes, food, decorations, and tickets. Does NOT include stewardship expenses or other costs associated with regular ongoing donations such as online donation processing fees.

Other Deductions

Capital Expenditures / Major Expenses (Describe)..Line (m)

Instructions: Any capital expenses or major expenses included in the operating statement that are not normal recurring expenses. The income used to pay for these expenses MUST be reported on the operating statement either as direct donations or a transfer from reserve funds reported on line (h). If the expense is paid directly from subsidiary funds such as a building fund on the Balance Sheet, the costs would not be reported on the TMR.

Loan Payments (Principal & Interest) .... **Line (n)**

Instructions: Loan Payments made by the church on debt may include both principal and interest. As with capital expenditures, loan payments can only be deducted to the extent that the income used to make the loan payments is reported on the operating statement and shown as income on the TMR. The entire loan payment should be reported as an expense on the operating statement (principal and interest).

Accounting: Reporting loan payments can be confusing. Because the operating statement needs to reflect the entire loan payment, an additional journal entry is necessary to keep the balance sheet correct. In addition to reporting the loan payment (principal and interest) as an expense, a second entry should be made adjusting the change in principal each month offset by a change in the fixed assets fund. If there is no fixed assets "fund" then the offset would go against unrestricted net assets or retained earnings.

Rental/Lease Payments .... **Line (o)**

Instructions: Rental payments made by the church to rent facilities for normal operations or lease payments for equipment under a long-term lease (i.e. a copy machine). Equipment lease costs are ONLY for the lease costs, not maintenance costs associated with operating the equipment.

Transfers to Subsidiary Funds for Designated/Future Purposes .... **Line (p)**

Instructions: Any transfer to subsidiary funds of restricted or designated funds not used in the current year or any surplus operating funds that are being set aside for future purposes. It's important that the funds transferred out are shown as a transfer to subsidiary funds on the operating statement. These funds are then no longer available to pay other operating expenses. When these funds are transferred back to the general operating fund for payment of operating expenses they must be reported on line (h).

Other Deductions .... **Line (q)**

Instructions: If you receive a grant that is not subject to apportionment you will need to show the grant amount on line (q.) so that it can be excluded from apportionment. This line can also be used for any other deductions authorized by the Bishop's office offsetting income apportionment.

OPERATING FUND SURPLUS AND DEFICITS

Because apportionment is calculated based on four progressive tiers of income, if a parish is running a large surplus or deficit, the TMR can incorrectly calculate the apportionment percentage which could result in a significant under- or overpayment of apportionment during the year. The monthly TMR has a line below the NDI (Net Disposable Income) line that should be used to report year-to-date surplus or deficits. The apportionment calculation then correctly calculates the apportionment based on the correct tier for the church's year-to-date operating expenses. At the end of the year, a surplus or deficit should be reported either on the surplus/deficit line or using one of the methods below.

Accounting for a Surplus: If Net Operating income exceeds Operating expenses shown on your Operating Statement, you have a surplus and that surplus amount must be transferred to an unrestricted reserve account and shown on line (p). This represents a transfer to your reserves of surplus revenue so that you will not pay apportionment on these amounts.

Accounting for a Deficit: If Net Operating income is less than Operating expenses shown on your Operating Statement, you have a deficit and that deficit amount must be transferred from unrestricted reserves and shown as a transfer on line (h). This represents a transfer from your reserves needed to cover Operating Expenses and you will pay apportionment on these amounts.