The Episcopal Diocese
of Northern California

INSTRUCTIONS FOR THE TREASURER'S MONTHLY REPORT

The Episcopal Diocese of Northern California

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Overview

Canon 50 of the Canons of the Episcopal Diocese of Northern California state:

Sec. 50.*2*. Mission Apportionment will be calculated as a percentage of Net Disposable Income (N.D.I.) defined as operating income less outreach and capital expenditures*, creative staff expenditures (as defined below), and other deductions* as defined in the instructions for the treasurer's monthly report.

Creative staff expenditures are those by which personnel expenditures are increased for *new* staff positions created to perform a function not previously performed by a paid staff position; however, creative staff expenditures shall be reduced by salary savings resulting from vacancies in, or the elimination of, other paid staff positions. A deduction for creative staff expenditures shall be available for only the first three years of *expenditures for the new* position. The approval of the Board of Trustees shall be required for the classification of an expense as a creative staff expenditure.

The Mission Apportionment calculation will be based on a system of at least three tiers created by the Board of Trustees. The Board of Trustees will determine annually the percentage of Mission Apportionment for each tier. The Trustees may not set the percentage above 10% on the first $60,000 of N.D.I., nor above 17.5% on N.D.I. over $60,000 up to $120,000, nor above 25% above $120,000, without approval of Convention.

A parish or mission in financial difficulty may apply to the Board for assistance in paying its Mission Apportionment. Such applications must be made on an annual basis and must include a completed audit by a diocesan auditor or audit committee.

Since 2014, the Mission Apportionment Tiers have been set at the following percentages:

Tier	*Range*	*%*
1	*$0 – $60,000*	*10%*
2	*$60,001 – $120,000*	*15%*
3	*$120,001 – $240,000*	*20%*
4	*$240,001 – $400,000*	*18%*
5	*Over $400,000*	*18%*

Apportionment payments are calculated and due monthly. apportionment is due on all operation revenues regardless of source, less allowable deductions made using these revenues.

Apportionment is calculated on the Treasurer's Monthly Report ("TMR"). The amount calculated for apportionment is then due in the following month.

- The TMR must be filed by the 15th day of the month for the prior month and sent VIA EMAIL to accountant@norcalepiscopal.org.
- Apportionment Payments are due to the Office of the Bishop no later than the 30th day of the month.

If you need assistance, please contact:

- For payment/balance questions: Tamoya Bell, accountant@norcalepiscopal.org
- For questions about completing the TMR: John Nykamp, treasurer@norcalepiscopal.org
- For all other questions: Kati Braak, kati@norcalepiscopal.org

Statement of Financial Activities

The first section (lines a-d) of the TMR reports your monthly Statement of Financial Activities. Depending on your reporting, this may also be called an Operating Statement or Income Statement. For the purposes of this document, we're going to use the term "Operating Statement".

Operating Income

Operating Income includes all income used to fund the operations of the congregation. This includes pledge and plate offerings, facilities usage, investment income, restricted or designated offerings, grants, fundraising, and transfers from reserves used to fund operating expenses. The Operating Income section of the TMR is delineated into four sections:

a. Pledge & Plate Offerings: This represents all unrestricted donations made by parishioners and visitors. *(Examples of revenue to report include loose plate offerings, all offerings toward pledges to the general fund, and all other offerings not restricted by the donor for a specific purpose)*

b. Restricted Offerings: This represents any donations that have donor restrictions including things like outreach, building, memorials, etc. Restricted Offerings should ONLY be reported if they are included on your Operating Statement. If you record restricted donations directly into restricted or designated funds then they should not be reported on the TMR. *(Examples of revenue to report include grants, contributions made to the Endowment Fund, contributions to a capital campaign, and all other contributions restricted by the donor for any specific purpose.)*

c. Transfers from Subsidiary Funds for Operating Expenses: This represents any amounts reported on your Operating Statement for funds transferred from designated, restricted, or unrestricted funds on the Statement of Financial Position (“Balance Sheet”). This transfer should show as income on your Operating Statement. *(Examples of revenue to report include money transferred in from Building Fund, Flower Fund, Investment Fund, or Undesignated/Unrestricted fund.)*

d. All Other Operating Income: This should be your total reported monthly operating income less the amounts reported on lines a. b., and c.

<u>Operating Expenses</u>

Operating Expenses are all expenses paid for the normal operation of the congregation. Depending on your reporting format this may also include capital expenditures or other expenses not subject to apportionment. Regardless of the type of expense, all operating expenses shown on your Operating Statement should be included in this section of the TMR which is delineated into three sections:

e. Outreach Expenses: This represents cash outreach expenditures paid out. This should NOT include any allocation of facilities costs which is reported on Line h. of the TMR.

f. Transfers to Subsidiary Funds for Future Use: This represents the transfer of restricted or unrestricted funds from the Operating Statement to restricted, designated or unrestricted funds on the Balance Sheet. This transfer should show as an expense on your Operating Statement.

g. All Other Operating Expenses: This should be your total reported monthly operating expenses less the amounts reported on lines e. and f.

<u>Summary</u>

After completing lines a. through g. you should end up with a Net Surplus (Deficit) figure that matches your monthly operating statement.

At this point, you MUST check to see if the year-to-date income and expense information on the TMR matches the year-to-date Income, Expense, and Net Surplus (Deficit) reported on your Operating Statement. If the figures do not match, it’s likely that a deposit or expense was inadvertently reported in a prior period. DO NOT go back and adjust the prior month’s TMR line, but instead simply adjust the current month’s information on the TMR to make the year-to-date balance match the year-to-date information on your Operating Statement.

Apportionment Calculation

Apportionment Calculation

The second section of the TMR takes the information reported on your Operating Statement and applies adjustments to calculate the Net Disposable Income (“NDI”) on which apportionment is based.

Apportionable Income

Before applying additional deductions, apportionable income is based on the following calculation:

	Total Operating Income
–	Net Surplus (Deficit)*
–	Outreach Expenses
–	Transfers to Subsidiary Funds for Future Use
=	**APPORTIONABLE INCOME**

* *Operationally, nonprofit entities cannot carry surpluses or deficits. In an ideal world, a monthly transfer from or to a subsidiary fund (typically unrestricted net assets) would be made to zero out any surplus or deficit. Because apportionment is calculated based on TOTAL income including any amounts necessary to offset a deficit or surplus, Apportionable Income is adjusted to account for the total income necessary for the operation of the congregation.*

Deductions

Many organizations impose or support their values by what they permit as deductions from their fees or apportionments. The Diocese of Northern California operates in this way when it offers congregations deductions for certain expenses when calculating the monthly apportionment payment expected of all congregations in union with the diocese.

ONLY expenses included in the Operating Statement can be deducted. If the expense is paid directly out of a designated or restricted fund on the Balance Sheet, it should NOT be reported on the TMR.

The deductions are described below and should be entered on a monthly basis if applicable:

h. Allocation of Costs due to Use of Facilities for Outreach Purposes: The diocese recognizes that in addition to cash outreach expenses (reported on line e.), congregations have expenses associated with providing space for outreach purposes. This includes space rented to outside nonprofit groups and space used for parish outreach programs. This allocation allows for a deduction against Apportionable Income for the estimated cost of providing facilities for outreach purposes.

The allocation allows the parish to deduct the variable costs associated with providing the space as well as a reasonable allowance for wear-and-tear on the facilities. Variable costs include things like utilities, janitorial services, trash service, etc. Fixed costs such as property taxes and insurance should not be considered as those are the same regardless of facilities usage.

The allocation can be calculated in a number of ways. Below are a few examples. Depending on the congregation, the calculation may be based on combination of these methods.

Example 1: Outside groups use your facilities and pay facilities usage fees (i.e. rent) for the privilege.

In this example many congregations take a reasonable percentage of the fees charged as the cost to the congregation for providing the facilities. This is a simple method for small congregations with limited facilities usage.

Example 2: Outside groups use your facilities are not charged a facilities usage fee and/or make free-will donations to the congregation for the use of the facilities.

In this example many congregations take a reasonable percentage of the fees donated as the cost to the congregation for providing the facilities. However, if the donations do not fairly represent the actual cost of providing the facilities as described above, a reasonable percentage of the variable costs defined above can be used as a monthly calculation of the deduction based on the space and the hours the property is used by the outside groups compared to the hours the property is used by the congregation.

Example 3: The congregation has an internal outreach program that uses the facilities. This could include things like a feeding program, senior care, etc.

The congregation should determine a reasonable percentage of the variable facilities costs listed above based on percentage of space and of time the facilities are being used for the outreach program. This deduction is only for the facilities usage. Any direct cost of the outreach program should be listed on line e.

i. Direct Expenses applicable to Non-Outreach Rental Property: This line item is only applicable to congregations who have property that is rented out commercially. This would include things like a Rector not being occupied by clergy that is rented out as a regular home rental or a congregation renting out other property or facilities to a commercial user. In this case, any direct costs associated with this rental property/use such as insurance, taxes, repairs, etc. can be deducted from apportionment.

j. Expense of Fundraising Events: Any expenses associated with a special fundraising event. In many cases the fundraising is reported as a single line as part of income with the expenses offset from income. In that case, the expenses have already been deducted from income and should not be included on this Line j. If, however, the income is reported as part of operating income and the expenses shown as a separate expense, then the expense associated with the event can be deducted from apportionment.

Expenses for stewardship campaigns and costs associated with online giving programs are NOT deductible as fundraising expenses. This line only applies to special fundraising events such as a rummage sale, craft fair, fundraising dinner, etc.

k. Capital Expenditures / Other Deductions – See separate section below.

l. Loan Payments (Principal & Interest): If a congregation has a loan, the payments on that loan, both principal and interest, can be deducted from apportionment. This can get a bit tricky from an accounting standpoint as the principal is generally handled as a change in the Balance Sheet and the Interest as an expense. However, if the payments on the loan are being made from operating income, both the principal and interest should be shown as an expense on the Operating Statement. This then requires a second journal entry to record the reduction in the loan liability on the balance sheet. For more information on how to handle the journal entries required, please contact John Nykamp (treasurer@norcalepiscopal.org). Loan Payments are deductible only if the income used to make the loan payments are also included in Operating Income. If you use restricted gifts or other sources of funds not previously included in operating income to make the loan payments, then those loan payments are not an allowable deduction.

m. Property/Equipment Rental or Lease payments: Costs associated with rental or lease of property or equipment such as a copy machine can be deducted from the TMR.

ALL EXPENSES INCLUDED IN THE DEDUCTIONS ABOVE, MUST BE ALREADY BE REPORTED ON THE OPERATING STATEMENT.

Capital Expenditures / Other Deductions (Line k)

Since the Diocese of Northern California is the final legal owner of all church properties and buildings in the diocese, it is the policy of the diocese to encourage all congregations to maintain their buildings by making regular repairs, adhering to maintenance schedules, and improving buildings and grounds.

Capital expenditures are understood to be the replacement, repair, or improvement of the building structure and major components of the building such as heating systems, plumbing, lighting, or other major appliances, and fixtures that are expected to last for five years or more. Examples include replacing the heating system, major upgrades of computer or telephone systems, replacing the roof, replacing carpeting or flooring materials, repairing, or improving parking lots or landscaping. Making energy improvements to be more "green," as in adding insulation, replacing windows, adding solar panels, replacing light bulbs, water retention basins, and other generally recognized energy improvements are deductible.

Capital expenditures also include tangible technology costs such as cameras, recording equipment, and other technology systems, and include non-tangible improvements such as website development and major software systems. Capital expenditures do not include personnel or other costs for on-going operations and maintenance of these systems.

In addition to capital expenditures, the Diocese also allows deductions for other expenses in special circumstances. Some examples of these include the Creative Staffing Exemption (per Canon 50), costs associated with clergy search and moving expenses, and certain grants. Generally other deductions should be reviewed with the Kati Braak at the Office of the Bishop to confirm whether or not the deduction is allowable.

In order to be deducted from Apportionable Income, the capital expenditure or other deduction MUST be reported on the Operating Statement.

Line k. deductions are not entered in the Apportionment Calculation section of the TMR, but should be listed individually on the detailed schedule at the bottom of the spreadsheet. The information should include the date of the expense, a description of the expense, and the amount being deducted in the month the expense was incurred.

Apportionment Due

After entering the deductions from Apportionment, the spreadsheet will calculate the apportionment due for the reporting month.

Below the monthly calculation is a section calculating the outstanding balance due to the diocese. For this figure to be accurate, please contact Tamoya Bell (accountant@norcalepiscopal.org) in January after you have submitted your payment for December of the prior year and your year-end reconciliation. She can then provide you with a schedule showing any balance forward or credit balance which should be entered into the appropriate box in the January column.

Each month, the amount paid for the prior month's apportionment should be reported on Line n. and the remaining Balance Due should be remitted to the Bishop's Office. If there is a negative balance due because of an unusual deduction, the balance will be carried forward.

Using the Spreadsheet

The Excel spreadsheet for the next year will be available on the Diocesan website in January of each year.

Once you have completed the spreadsheet for a reporting month, the Excel file should be saved and emailed to accountant@norcalepiscopal.org. Once the spreadsheet has been emailed, please enter the date the spreadsheet was sent in the appropriate box at the bottom of the spreadsheet. At this point the figures for that month will be shaded and NO FURTHER CHANGES should be made to a reported month. If you absolutely have to make a change to a prior month, the spreadsheet needs to be resubmitted to accountant@norcalepiscopal.org with an explanation of the change. Otherwise, minor corrections can just be made in the new month to make sure that the year-to-date figure matches the year-to-date operating statement. NOTE the TMR spreadsheet should be emailed to accountant@norcalepiscopal.org even if there is no payment due for the month.

You MUST use the same spreadsheet for the entire year as the apportionment calculation is based on total year-to-date information. Apportionment calculations will not be correct if all prior months are not completed.

Year-end Reconciliation

At the end of the year, the final year-end operating information should be entered into the RECONCILIATION Column. While there shouldn't be any adjustment if the monthly figures and year-to-date totals have been checked during the year, there are occasionally times where adjustments have not been caught or errors were made in the monthly reports. The reconciliation allows for a final check of the annual figures.

If the Balance Due differs from the amount shown in the December column, the difference should be remitted to the Bishop's Office or, if negative, should be treated as a negative balance forward on the following year's TMR form.

After completing the reconciliation, the final spreadsheet should be emailed to the Bishop's Office (accountant@norcalepiscopal.org). If there are any significant changes to the reported information, please include an explanation of the changes.

Review Process

When unusual deductions are noted by the Bishop's Office, the information will be forwarded to the Director of Operations for review who will contact the congregation and may request additional clarifying information about the deductions. Such information may include the source of the income for the deduction, when that income was recorded on the TMR, the rationale for claiming the deduction, and other related questions. After reviewing this information, the Director of Operations and the Budget and Finance Committee will make a recommendation to the Board of Trustees on the deduction being claimed. Once Board of Trustees has voted, the congregation will be notified, and the Bishop's Office will make any changes needed to the TMR form or the apportionment owed by the congregation.

FAQ

- **What happens if the apportionment in any column is negative?**

  The spreadsheet will recognize that as you continue to enter data in subsequent columns and the Total column will report the net balance due.

- **What happens if my apportionment is positive all year but it goes negative in the December column. How do I get that credit?**

  A negative balance due at year-end can either be carried forward to January of the next year or be refunded back to the parish. If this is the case, contact Tamoya Bell or Kati Braak.

- **We applied for and received a grant for a specific purpose. Should we report this as income and pay**

an apportionment on it?

The grant should include information on whether or not it includes an allowance for the apportionment due on the granted amount. If you have any questions, contact the Bishop's Office.

- **Our rector volunteers at a homeless shelter. Can we deduct a portion of her salary because of her outreach ministry?**

  No, you cannot. Either that work is work she does in her role as rector/priest as an employee of the congregation or it is work she volunteers to do on her own time.

- **Can we deduct our apportionment since it benefits another charitable organization?**

  No, you cannot. This is an ordinary expense of being an Episcopal church just like salaries, utility bills, and other costs of being a church.

- **We have a restricted outreach fund. Can we deduct the money we spend each year from this fund when calculating our NDI?**

  Yes, you can. But all income from that fund must be counted as income and then the funds expended are deducted to arrive at the net disposable income.

- **We raised funds to install a solar power panel on the roof of our parish hall. Can we deduct its cost?**

  Yes, if you first include the funds raised as income and then deduct the expenses incurred for the system that was installed.

- **Our parish hall kitchen is used to prepare food for a homeless shelter. Can we deduct the costs of our kitchen?**

  No, you cannot deduct the entire cost of the kitchen unless you can prove you would not have a kitchen otherwise. If having a kitchen is part of parish life, then its costs cannot be deducted. With careful documentation, separate outreach activities can be deducted but the income needed to operate these programs must be included as revenue and then the direct and provable expenses for the outreach program can be deducted.

  Congregations must be prepared to "Show their calculations." Assumptions that income and costs are equal or that percentages of use are not verifiable are not sustainable and may result in additional apportionments owed.