



The Episcopal Diocese of Olympia

The Episcopal Church in Western Washington

www.ecww.org

NET DISPOSABLE INCOME (NDI) CALCULATION INSTRUCTIONS

01/03/2022
VERSION 1.1

From the Office of the Bishop

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Overview

Assessment payments are calculated and due monthly. 14.5% assessment is due on all operation revenues regardless of source, less allowable deductions made using these revenues. The 14.5% calculation due in any month is based on the immediately previous month's financial data. It is expected that the amount due will change each month.

- The January 2021 report and payment is based on the December 2020 data. The February 2021 report and payment is based on the January 2021 data, etc.
- File by sending your 2021 Monthly NDI/Assessment Calculation Form to lhardow@ecww.org.
- Send payment monthly with the 4 digit Diocesan account number noted on the check
- Include your 4 digit code and parish name in the name of the emailed document.

For help contact Lori Hardow, lhardow@ecww.org 206-325-4200 x2018 or Charles Thorne, Canon for Finance, cthorne@ecww.org 206-325-4200 x2019.

NOTE: Deductions are allowable **ONLY** if they are paid using operations revenues. It is assumed that NDI calculations will be made using a finalized monthly Statement of Revenues and Expenditures (also called - Income Statement, Profit & Loss Statement, Treasurer's Report, Statement of Activities).

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Revenue

This is like "Operating Revenues" of the Parochial Report. It includes things like plate collections, pledges, capital campaigns, special gifts, disbursements from endowments used for operating expenses, designated or restricted funds used for operations, revenues designated for outreach when put into the general/operating accounts and contributions for altar flowers.

Deductions

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

In all cases, the income for deductions must be entered as revenue received before the deduction can be made. Any deductions claimed without a source of income will require additional documentation provided to the Budget and Finance Committee of Diocesan Council. In cases where the income was recorded in a separate month within the current budget year, a clear explanation must be provided on the second tab of the NDI form that shows the deduction. If a congregation claims a deduction for an expense using income from a prior budget year, a formal request to permit such a deduction must be filed with the Budget and Finance Committee and approval received before the deduction will be allowed. In all cases, Budget and Finance committee of Diocesan Council reserves the right to review any deduction to determine applicability.

Capital Improvement Deductions

Since the Diocese of Olympia 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 improvements 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 improvements 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.¹ Capital improvements do not include personnel or other costs for on-going operations and maintenance of these systems. Non-tangible

¹ The primary difference between tangible and non-tangible improvements is that tangible items are physical objects while non-tangible items may exist only in cyber-space.

capital improvements must have a useful life of at least five years. If congregations have questions about their proposed deductions for capital improvements, especially non-tangible capital improvements, please contact the Budget and Finance committee in advance of making the deduction.

Outreach Deductions

It is the policy of the Diocese of Olympia to encourage all congregations to give funds and programs to designated charities or other worthy needs as determined by the congregation. Outreach programs and expenses benefit individuals and groups other than the congregation itself. The focus of the expense is external rather than internal.

Loans and Endowment Deductions

Payments made on loans (principal and interest), rent for facilities, monies from operational income sent to endowments may be deducted only if the payment is made using money you have reported in revenue. Assessment will be paid on funds sent to endowments when they are withdrawn for use.

Payments made on loans (principal and interest) are deductible only if the proceeds used to make the loan payments are also included in assessable 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.

Facilities rental payments are deductible only if the proceeds used to make the rental payments are also included in assessable income. Assessable income and rent should net to zero in the year in which the deduction is claimed.

Endowment and other **donor restricted gifts** are deductible only when the proceeds are used for operating expenses. When those ministries are funded (e.g., paid for), then the earnings from the endowment are included in assessable income in the year(s) in which those expenses are paid. When a donor makes a specific, restricted gift, those gifts are not included in assessable income until or unless the proceeds of the gift are spent on operating costs (salaries, benefits, and other non-capital program expenses).

Grants

By a 2013 action of Diocesan Council, all grants received from the Diocese of Olympia do not need to be reported as revenue for calculating NDI and assessment amount due. Do not report this revenue as operating income. Any expenditures made using these funds cannot be deducted.

Disallowable Deductions

Assessment payments, normal maintenance items such as cleaning, annual fire extinguisher inspections, disbursements of monies for the designated purpose from separately accounted for designated funds.

Examples:

- *You cannot deduct collections for a separately maintained Rector's Discretionary Fund, unless these funds were first included in revenue.*
- *You cannot deduct a check from a parishioner made out to the Diocese of Olympia to be deposited in the DIF. If outreach monies are separately accounted for, you cannot include them in revenue nor can you deduct the disbursements, i.e., the payment for repaving the parking lot using monies from the Buildings and Grounds Designated Fund is not an allowable deduction.*

Determining the Net Disposable Income

Calculate the gross income first and then deduct allowable expenses. In determining allowable expenses, follow these guidelines:

- *Capital improvements do not include housekeeping expenses, utility bills, or the purchase and use of consumables such as toilet paper, paper towels, copy paper, and office supplies. Anything that is used up regularly or is a one-time use item is not a capital expense item. Salaries and honoraria for church staff or other church employees or other persons are never capital improvements.*
- *Deductible outreach expenses include financial support for other recognized charities – both within and outside the community or diocese. This financial support can include individuals as well as organizations but there must be a known and transparent policy for supporting outside organizations or individuals. If an employee of a congregation is solely hired to engage in work that is outreach rather than the normative activities of a congregation, or is partly hired for outreach work, that portion of the salary and benefits paid for the outreach work may be deducted for purposes of calculating the Net Disposable Income of the congregation. Outreach activities of individuals hired primarily or exclusively for congregational purposes are not deductible expenses. Congregations must provide clear evidence for such deductions at the first instance of claiming the deduction. Outreach deductions do not include "in-kind" rent to non-profit organizations that use church property for free.*

- *When a congregation operates a program designed as outreach on its own property, a portion of recurring costs incurred by offering the program may be deducted by the congregation. Care must be taken to provide backup materials when calculating utility costs, for example. All buildings are generally heated and lighted regularly whether they are used for outreach purposes or not. Thus, if a church offers a feeding program, direct costs such as food purchased for the program by the congregation can be deducted. If the church purchased equipment that is exclusively used for an outreach program, such equipment could be deducted. Congregations are encouraged to create separate entities with separate budgets in cases where the outreach activity is large and complex. Again, congregations must provide back-up information about the calculations used to arrive at this sort of deduction and inform the diocesan financial office when such a deduction is claimed.*

Using the Spreadsheet

The Excel spreadsheet for the next year will be sent via email in December to the parish. If you do not have a copy, contact Lori Hardow at LHardow@ecww.org. The gray highlighted cells are the ones for you to enter information. In cell A2 please enter the church name and city, and the 4 digit code that is your account number here at the Diocese. If you don't have the account number, please email the accounting office at accountingoffice@ecww.org.

The columns for each month indicate the month the assessment is due. In the January column you will enter data from your December 2020 financials; in the February column you will enter data from your January 2021 financials and so on.

Enter these items as positive numbers:

Item A1 (row 6): Pledge, Plate, Regular support; (This and Item B are the same as the revenues used to calculate the annual Operating Revenues shown in Line A of the Parochial Report.)

Item A2 (row 7): Available for operations from investments; other operating income, including unrestricted and restricted gifts used for operations and contributions from congregation's organizations; Unrestricted bequests used for operations.

Enter this item as a negative number:

Item A3 (row 8): Operating revenues added to restricted fund,

Enter these items as positive numbers; the spreadsheet will subtract them from revenue.

Item B1 (row 12): Principal and interest on any loans paid for from operational revenue.

Item B2 (row 13): Rent paid for worship facilities paid for from operational revenue.

Item B3 (row 14): Total expenditures to purchase land or buildings paid for from operational revenue.

Enter these items in detail or summarized on the Itemized Info tab:

Item B4 (row 15): Expenditures paid for from operational revenue for improving or repairing facilities or major components of the buildings and grounds Enter on Does not include normal maintenance--such as cleaning, mowing and other lawn service, replacement of filters, copier maintenance, fire extinguisher maintenance, etc.

Item B5 (row 16): Outreach paid for from operational revenue: payments made directly to the receiving organization or purchases of items donated to organizations only.

Payments

Item D (row 20) shows the assessment amount due for each month. Row 24 shows the accumulated to-date assessment. If you enter the amount of the check you send in Item E (row 23) then Item F (row 24) will maintain the net balance due. The accumulated net balance due will also be shown in the Total Column.

Review Process

When unusual deductions are noted by the finance office, the information will be forwarded to the Budget and Finance Committee for review. That committee 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 NDI form, the rationale for claiming the deduction, and other related questions. After reviewing this information, the Budget and Finance Committee will make a recommendation to Diocesan Council the deduction being claimed. Once Diocesan Council has voted, the congregation will be notified, and the Board and Finance Committee will make any changes needed to the NDI form or the assessment owed by the congregation.

FAQ

- **What happens if the assessment 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 assessment is positive all year but it goes negative in the December column. How do I get that credit?**
Contact lhardow@ecww.org for an adjustment.
- **We applied for and received a grant from the diocese for a**

specific purpose. Should we report this as income and pay an assessment on it?

No. In 2013 Council removed diocesan grants from assessable income. You do not need to pay the assessment on funds granted to you by the diocese. If you received a grant from any other entity, the grant is assessable income.

- **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 assessment 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 charitable group that meets at our church. Can we deduct the “rent” they pay to meet here because they are a charitable organization?**
No, you cannot. Any “rent” or suggested donations churches receive for use of their buildings is ordinary income to the church. You also may not deduct any foregone (in-kind) rent to non-profit groups using church property.

- **We have an endowment fund whose earnings are restricted to outreach activities. 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 assessments owed.