

Diocese of Newark
Guideline for the Computation of Normal Operating Income
to be Used in Determining a Congregation's Annual Pledge to the Diocese

In determining the amount of *Normal Operating Income* (NOI) which is to be used when computing your estimated dollar pledge to the Diocese, the instructions for NOI as developed by The Episcopal Church are to be used. By using this definition of NOI, each congregation will be computing their pledge on a consistent basis as all other congregations in the Diocese.

General Definition

The general rule is this: Operating Income is defined as the funds that are used to pay Operating Expenses. Operating Expenses include, among other items: compensation of clergy and staff; all expenses relating to operating and insuring the building(s); expenses of the music, church school, adult educations, and other programs; flowers and supplies for the altar; the annual pledge to the Diocese; outreach from the operating budget; office expenses; and so on.

Since Operating Income is defined as the funds that are used to pay Operating Expenses, Operating Income will typically equal or nearly equal Operating Expenses.

There are several areas that may cause some confusion as to whether an item is to be included in NOI or how much should be included in NOI. The following sections provide clarification of those items.

It may be easier to look at the actual page of the Parochial Report when determining NOI, and that page is attached. Note that NOI is shown as Line A and equals the total of those income items on Lines 3-6; Operating Expenses is shown as Line E and equals the total of those expense items on Line 12-14.

Rental Income

Rental income is to be included as a component of NOI. The gross amount of rental income may be reduced by the amount of incremental expenses incurred as a direct result of earning that rental income.

Most churches find that utility costs increase somewhat when they begin to rent space. What is important to understand is that the amount of expense that may be used to determine net rental income is the amount that is incurred directly because of the rental, and not a higher amount. (One way to determine this amount is to estimate how much those expenses would decrease if the organization stopped renting from the church—the remaining amount would be the ongoing expense which would be incurred by the church, and which therefore should not be used to reduce the gross rental income.)

Example: St. Swithen's utilities typically cost \$10,000 per year. In 2012 it began to rent space to an organization for \$15,000 per year and, because of the rental, their utilities costs increased to \$12,000 per year. St. Swithen's should include net rental income of \$13,000 (the gross rent of \$15,000 less the direct incremental utilities expenses of \$2,000) as part of Operating Income (on line 5 of the Parochial Report).

It is not correct to reduce the gross rental income by more than the incremental expenses incurred as a direct result of renting the space.

Funds from Investments of Endowments

The amount to include as part of NOI is the amount actually transferred into operating accounts or used for operating expenses during the year.

Therefore, interest from all operating accounts, as well as dividends and interest from investments used for parish operating expenses, is to be included as part of NOI. If restricted income is used to pay operating expenses, that income is to be included. If withdrawals of principal or capital gains were made to cover operating expenses, those withdrawals are to be included as part of NOI.

Regardless of the activity in the investment accounts of the congregation, the amount to be included as part of NOI is whatever amount has been transferred or spent from the portfolio (whether principal, interest, dividends, or accumulations) to support the operations of the congregations.

Fundraising Income

The determination as to whether income from a fundraising event is to be included in NOI is based on the purpose of the fundraiser and where the actual income was spent. If an event raises money that is used to pay operating expenses, it is to be considered operating income.

Example: St. Patrick's hosts a concert and decides that \$1,000 will be used to pay for altar guild supplies and to pay for some of its utility costs, and the balance will be donated to a local food pantry. A total of \$2,500 is raised. The \$1,000 of income which is used to pay operating expenses is considered operating income.

Implication of Not Properly Computing NOI

It is important that all congregations use the same method of computing NOI so that they know that NOI and their pledge is consistently computed, and so that all congregations are properly reporting their percentage pledge.

As an example: In 2012 St. Job's Church pledged \$15,000, indicating that it was pledging 10% of its NOI of \$150,000. St. Job's did not include its \$30,000 of net rental income as part of NOI. Its properly-computed NOI, including the net rental income, is \$180,000 and, therefore, its \$15,000 pledge is actually 8.3%.

It is important that St. Job's understand the impact that misstating their NOI has on their pledge. Inasmuch as the minimum expected standard for congregational giving as its Diocesan pledge is 10%, they should understand that by miscalculating their NOI they are, in fact, not actually pledging at the percentage level that they may believe they are doing.

In addition, it is the practice in the Diocese of Newark that the NOI, pledge percentage, and dollar amount of the pledge of each congregation (for the past several years as well as the next year) be published at least annually. In order for that listing to be accurate, it is important that all congregations compute their NOI and their pledge properly and on the same basis as all other congregations. *In reviewing the pledges for 2013 we will attempt to identify any congregations that may not be computing their NOI or pledge as required and will speak with them. Some pledge percentages from prior years may also need to be restated to the appropriate percentage.*

Assistance

Should any congregation have any questions about the information as to how to compute NOI or what is to be included in it, they should contact me to discuss the matter.

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October 17, 2012