

THE FREE METHODIST CHURCH IN
SOUTHERN CALIFORNIA

FINANCIAL GUIDE

A HANDBOOK OF
POLICIES AND PROCEDURES

FOR USE BY LOCAL CHURCH BOARDS AND
TREASURERS

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INTRODUCTION

This tool is designed to serve as a reference tool for ministers, delegates and treasurers when dealing with financial matters concerning their local church.

An attempt has been made to bring together in one place the various policies, papers, directions, expectations, papers, lists and recommendations which over the years have become operational policies. While this is not an exhaustive study of operational policies it will answer many of the basic questions asked by new treasurers and ministers.

The format is designed to allow for the replacement of individual pages and it is suggested that one copy be given to the treasurer and at least one copy be retained in the church office for reference or replacement of lost or damaged pages.

This version replaces all previous editions of the Financial Handbook for the Free Methodist Church in Southern California and supercedes all previous materials. The production date of this material is listed at the bottom of each page for easy reference.

Please remember that should you have questions that are not answered in this document, you may contact either the Director of Business or the Bookkeeper at the conference office.

IMPORTANT DATES

FISCAL YEAR

The denomination and conference use a Fiscal year concurrent with the calendar year. It is strongly urged that churches observe the same fiscal year. All reporting is scheduled on a calendar year basis.

PAYMENT DATES

The tithe of contribution and non-contribution income is to be forwarded to the conference office along with the report form, **by the tenth of the subsequent month**. Churches operating schools should also forward the 1% contribution by the same date. A church or school may submit their tithe and contributions either in one payment or may, if so choosing, submit their report and funds weekly or semi-monthly. All funds collected for United Ministries for Christ – World Missions should be handled in a similar manner. Care should be taken to make sure that the report forms are correctly filled out to allow for proper crediting of contributions. **Reports received after the 10th will be credited to the following month.**

CLOSING DATES – YEAR END CLOSING

The Conference books are closed on December 31 of any given year. All funds for the current year should be in the hands of the Conference Treasurer by that date or postmarked by that date for credit against a church's accounts. Income received after the fifth of January will be credited as past due for the previous year.

PASTORAL MOVES

The Ministerial Appointments Committee has adopted the following policy; “The outgoing pastor is responsible for services at the church she/he is leaving through the Sunday following the adjournment of Annual Conference.” Details regarding compensation and travel costs are covered in later sections of this book.

IMPORTANT DATES

(CONTINUED)

TAX REPORTING

Each church is responsible for proper and timely reporting of Federal, State, Local and Social Security taxes. Treasurers should be aware of published filing dates for W2's, 1099's as well as all other tax dates. In recent years governmental agencies have become much more assertive in pursuing non-profit corporations with regard to tax liabilities. Should you require assistance with these issues please contact the Conference office.

GENERAL CHURCH

PENSION PLAN

The Free Methodist Church of North America Pension Plan for Annual Conferences provides a Defined Benefit Pension Plan for superintendents, qualifying pastors and pastoral staff as well as Conference employees within the denomination. This plan began on January 1, 1981 and replaced the previous plan, which had been established on January 1, 1969 and was frozen on December 31, 1980. Pastors who have served within the denomination for longer than 19 years may well participate in both plans, while all others who are eligible participate in only the Defined Benefit Plan currently in operation.

The plan is funded by church contributions. The amount the Denominational Pension Board assigns each church is based on information submitted annually by the local church. Contributions are made to the Plan Trust Fund, not to individual accounts and every church contributes to the plan **regardless of the eligibility of its pastor**. Individual contributions are not permitted.

To qualify for participation in the plan an individual must be a ministerial candidate, Deacon, Elder or employee in a Free Methodist Conference in the United States of America. In addition, lay Ministers, and non-Free Methodists are eligible for participation in the pension plan if the Ministerial Appointments Committee has appointed them to their current ministry position.

Details concerning vesting, credited service and retirement benefits are available in the Participant's Handbook. Copies of this may be obtained by written request to the conference office.

Adjustments in pension premiums may be adjusted on a quarterly basis by filing a change of status form with the conference office. When staff is added or a change occurs in pastoral or employee compensation, a change of status form should be submitted within thirty days of the change in order to provide for proper crediting within the appropriate quarter. The local church will be responsible for any retroactive pension billings that occur as a result of change forms being filed after the thirty day period.

For estimation of premiums use the following formula: Take 8 ½ % of your pastor's base salary (salary + FICA) plus any housing allowance. This will approximate the actual pension premium.

By conference policy no more than 33 1/3 % of a church's tithe and 1% income contribution maybe used to pay pension costs. All amounts over 33 1/3% will be billed directly to the church by the conference office.

When proposing the appointment of additional staff, the local church must inform the MAC Committee of their ability to fund pension payments as well as all other costs of that ministry position.

UNITED MINISTRIES FOR CHRIST

The United Ministries for Christ (UMC) is the approved system for funding all ministries of the general church. Within this system are two distinct funding plans:

UMC – WORLD MISSIONS

UMC World Missions funds the overseas mission work of the Free Methodist Church and the homesite support staff of the Department of World Mission. The Commission on Missions of the General Church establishes an annual budget based upon a “Minimum Goal” set by each Annual Conference. These goals are a projected minimum of giving by the churches of each conference and as such leave little room for growth or expansion of our ministries. A large amount of additional funding is required for missions operations and as such the Department of World Mission is permitted to raise as many dollars as possible beyond the gifts provided by annual conferences.

In the Southern California Conference, each member church sets its annual goal for missions giving and submits that projection at the beginning of the year. These goals are then combined to create the conference goal, which becomes the official target for the Free Methodist Church in Southern California.

UMC – HOME MINISTRIES

UMC Home Ministries funds the other departments and ministries of our church including the Board of Bishops, Christian Education, Evangelism and Church Growth, Historical Center, Higher Education and many other forms of witness and ministry. **HOME MINISTRIES dollars are raised through BASIC SUPPORT SHARES assigned by the denominational Board of Administration to each conference.** Home Ministries dollars are shared by all the participating departments and allocated from a central fund. In the Southern California Conference each church’s apportionment is taken from its tithe. Generally this requires at least 33% of the tithe to fund the **BASIC SUPPORT SHARES** for each church. All other contributions are as shown on the accompanying chart, which should help you, see how the various emphases and offerings are utilized to fund our varied ministries.

UNITED MINISTRIES FOR CHRIST

| HOME MINISTRIES | WORLD MISSIONS |
|--|---------------------------|
| BASIC SUPPORT SHARE (Covered by tithe) | LOCAL CHURCH MINIMUM GOAL |
| JESUS BIRTHDAY OFFERING | COMPASSION OFFERING |
| FESTIVAL OF PRAISE | BREAD BANKS |
| CHRISTIAN EDUCATION EMPHASIS | WMI |
| “HOME PROJECTS” | PENNY-A-DAY |
| UNDESIGNATED UMC | “OVERSEAS PROJECTS” |

LOCAL UMC GOAL = HOME MINISTRIES + WORLD Missions

| |
|--|
| <p><u>PROJECTS BEYOND YOUR UMC GOAL</u></p> <p>Bishop’s Famine Relief Fund</p> <p>Special Growth Projects (VIA, PACE, Extension Areas)</p> <p>Volunteers In Service Abroad (VISA)</p> <p>Child Care Ministries</p> <p>Love Offerings for Missionaries</p> <p>Partners in Church Growth</p> <p>Church Planting Projects</p> |
|--|

FREE METHODIST CHURCH
IN
SOUTHERN CALIFORNIA

CONFERENCE MINISTRIES BUDGET

The operation of the conference is coordinated through the combined ministries budget of the conference and is funded in part from tithes submitted by local churches and the income from the conference portfolio. The budget for conference operations is submitted annually to the Board of Administration for review and recommendation to the Annual Conference. The Annual Conference approves the budget, which provides for operation of the conference office and the support of ministries within the conference.

Generally the plan for funding the conference is that 34% of church tithes will be used for budgeting purposes. The other two thirds of church tithes are used to support the pension fund and UMC Home Ministries.

BOARD / COMMITTEE TRAVEL

To permit broader representation in the membership of Conference Boards and Committees the Board of Administration has adopted a policy providing for limited reimbursement for travel expenses.

The following guidelines apply to all non-staff members of committees and boards:

- ✦ Members of Conference Boards and Committees funded through the Conference Ministries Budget may be reimbursed for travel to and from regularly scheduled meetings.
- ✦ All board and committee members are expected to donate the first 100 miles in each calendar year.
- ✦ Reimbursement will be based upon auto travel and calculated at 12 cents per mile plus 3 cents per mile for each passenger.
- ✦ Requests for reimbursement must be submitted in writing to the conference office within 30 days of the meeting. Reimbursements will be made in the order received until the budget allotment for such expenses is exhausted. Requests beyond the budgeted allowance will not be funded.
- ✦ Board/Committee members may choose to submit a record of miles traveled for verification to be used as a deduction from taxable income in accordance with the latest IRS regulations.
- ✦ The Board of Ministerial Education and Guidance and the Ministerial Appointments Committee shall provide travel reimbursement through their own budgets and by their policy directive.
- ✦ Travel expenses for the superintendent shall be funded through the travel budget of the combined ministries budget of the conference.

MOVING FUND

The Ministerial Appointments Committee has approved the following guidelines with regard to pastoral changes affecting senior pastors, superintendents, assistant superintendents and seminarians.

RECOMMENDATION

Churches receiving a new pastor should indicate its desire that he/she hire a moving company to load, transport and unload the pastor's possessions at the new parsonage and church

POLICIES

1. The receiving church is responsible for any moving costs not reimbursed by the conference moving fund.
2. "Moving Expenses" included: Van or rental truck, appliance dolly, pads, packing boxes and materials, gasoline for the rental truck and one passenger vehicle, meals and motel costs in route (based on one day per 400 miles).
3. The Conference's share of moving expenses will be based on the following table:

| MILEAGE | MAXIMUM REIMBURSEMENT |
|--------------------|--|
| 0 – 500 | \$300 PLUS 80 CENTS PER MILE |
| 501 – 1000 | \$700 PLUS 70 CENTS PER MILE OVER 500 MILES |
| 1001 – 2000 | \$1,200 PLUS 60 CENTS PER MILE OVER 1,000 |
| 2001 AND UP | \$1,800 PLUS 40 CENTS PER MILE OVER 2,000 |

**(THE MOST DIRECT ROUTE ACCORDING TO AAA WILL BE USED TO
COMPUTE MILEAGE FOR REFUND)**

MOVING POLICIES

(Continued)

4. The stipend provided to pastors entering from another conference or denomination is a loan. One-third of the loan is forgiven for each of the first three years of pastoral service within the conference.
5. Disbursements will be made only upon written request (including a statement of miles traveled) and should be submitted not more than 30 days following the move.
6. Seminarians who held membership in the Conference or a conference church at the time they entered seminary and are appointed to a full time pastoral staff position may be reimbursed from the moving fund.
7. Moving costs for all other staff positions are the responsibility of the local church.
8. When a pastor retires from full-time ministry by accepting "Retired" status in the Appointments, he/she will qualify for compensation from the moving fund on the same basis as a senior pastor.

GROUP MEDICAL INSURANCE

The Board of Administration at its meeting of October 22, 1999 adjusted the Conference rule on medical coverage to allow each church, school and institution to choose the medical plan it desires to use to fulfill its commitment to provide health care coverage for ministerial staff and employees. **THE ONLY EXCEPTION TO THIS RULE IS WHERE COVERAGE IS AVAILABLE TO THE MINISTER THROUGH A SPOUSE'S COVERAGE, THROUGH MILITARY SERVICE OR THE LIKE.**

COVERAGE

Each church, school or institution must provide all full time ministerial staff with medical coverage that includes basic and hospital coverage. This coverage maybe provided through any reputable health care program. However, to assist with this the Conference has arranged with Christian Healthcare Network to serve as a broker for all those who choose to use their services. This group provides a “cafeteria” style approach that allows each church, school or institution to select from several providers and numerous programs. The contact number for this group is (800) 871 – 7056.

ENROLLMENT

New appointees or employees must enroll in a healthcare program within 31 days of appointment/employment. Enrollment is to be confirmed to the Conference office within 60 days of appointment of any ministerial staff member. Should you chose to use Christian Healthcare Network, a report will be provided by that group confirming the annual renewal of enrollment. If however, you chose another method it is the responsibility of the church, school or institution to provide annual proof of coverage for all ministerial staff.

BILLING/PAYMENTS

Premiums are to be paid by the local church, school or institution. These costs should be built into the annual budget and considered when adding additional pastoral staff positions.

Group Medical Insurance is a benefit paid by the local church, not a part of the pastor's salary package. Therefore the church treasurer should make payments directly to the provider group thus keeping the pastor from any potential tax problems and insuring that the coverage is maintained as required by our covenant.

TERM LIFE / AD&D INSURANCE

In addition to the regular health insurance coverage, we encourage all our local churches to provide their pastor and full-time support staff with term life/accidental death & disability insurance. To assist you in this benefit the Free Methodist Church in Southern California, through UNUM Life Insurance Company of America, offers all full-time and active employees working at least 30 hours a week coverage in the amount of \$25,000.00. The premiums are paid by the local church. To obtain a quote on premiums or to request a summary of these benefits, please call the conference office.

SPECIAL OFFERINGS, EVANGELISTS AND AFFILIATED MINISTRIES

SPECIAL OFFERINGS

The Board of Administration must approve all solicitations for funds in conference churches by churches, boards, committees, camps, auxiliaries, schools or other agencies. Request for such offerings should be addressed to the Chairperson of the Board of Administration.

Pastors and local congregations are requested to cooperate with these efforts in utilizing materials provided, presenting the need and giving the congregation an opportunity to participate.

EVANGELISTS

Any church engaging the services of a full time evangelist should follow the guidelines for compensation, which are provided by the Department of Evangelism and Church Growth. The costs associated with an evangelist include: honorarium (salary), travel, entertainment. The church should remunerate those who host evangelists and other invited guests.

AFFILIATED MINISTRIES

Churches and individuals are urged to support Azusa Pacific University through the local budget and through the on-going programs and ministries offered by the University.

Support of Western Evangelical Seminary is encouraged through the local budget, special offerings and the use of seminary representatives in public services.

The following organizations deserve the support of local churches and individuals: East Los Angeles Light and Life School, California Council on Alcohol Problems, Home Free Men's Home, and Oak Glen Christian Conference Center.

SCHOLARSHIP FUNDS

The Southern California Conference has two scholarship funds that individuals and churches may wish to consider for gifts. The Betz fund is for undergraduate Free Methodist Students and the Seminary Scholarship fund provides assistance for individuals working on advanced degrees in ministry related subjects. For information contact the Director of Business at the Conference Office.

THE LOCAL CHURCH

THE LOCAL CHURCH BUDGET

The budget of the local church should be prepared annually for the January 1 – December 31 fiscal year. While a church may elect a different fiscal year, all reporting for Conference and Denominational purposes must be on a calendar year basis.

Effective reporting during the year provides an on-going budget study for the local finance committee. When development of the next year's budget begins, the finance committee should reach beyond its own membership and involve as many people as practical. This enhances ownership of the budget and the ministries it represents.

Work on the next year's budget should begin by **September** of any calendar year. The proposed budget should be sent to the local board for approval in **October** of the same year. This allows for the adopted budget to be presented to the congregation during **November**. This submission is not for approval, but rather to provide an opportunity for the congregation to become aware and committed to the financial commitment required by the church's ministries. A copy of the approved budget should then be forwarded to the conference office which will assist the conference in preparing budgets and managing resources for ministry.

The budgeting process should include a study of the income as well as expenses. As far as possible, the budget committee should project the church's income for the next year. Factors to be considered are past performance, growth/decline in attendance, age of the congregation, employment factors within the community, the general economy, as well as the ministry vision of the congregation. Consideration of the expense side of the budget should also include a review of the past and all fixed costs.

SCHOOL BUDGETS

Where a church has had the vision for providing Christ centered education for the community the same care should be exercised when preparing the annual budget for the school. The basic pattern should be followed with the exception being that the process should proceed through the school's system and then to the board for final approval. A copy of the approved budget should also be forwarded to the conference office to assist the conference in its management and visioning roles.

INTERNAL CONTROLS

Internal controls are for the protection of both the church as an entity and the persons who handle the church's funds. The implementing of such controls is a sound accounting principle and should not be interpreted as a lack of trust. Rather it is a following of the scriptural injunction to avoid the very appearance of evil.

The following controls are considered **basic** in the financial operation of the local church and should be the minimum of safeguards that are put in place.

- ✍ Money received by the church treasurer should be counted and verified by at least **TWO unrelated individuals**. Verification slips should be signed by the counters and retained for audit purposes. After counting and verifying amounts, all funds should be immediately placed in a fireproof safe located **on the church premises** unless immediately deposited in the bank.
- ✍ All receipts should be deposited in a bank as quickly as possible, preferably within 24 hours of receipt. **Monies should be deposited in the form received**. Church insurance policies usually insure against loss of cash on premises, but there are dollar and time limits. The coverage generally does not extend off-premises.
- ✍ All treasurers shall be **bonded**. Churches insured through the Conference insurance program with Preferred Risk have this bond as a feature of the policy. Others should check with their insurance carrier.
- ✍ Disbursement should be made by pre-numbered checks. Two signatures are preferred, but the official board may permit one signature below a specified amount. The Conference board requires two signatures on all checks and this is the recommended practice of our auditors. The signers **may not** be related or relatives of the Senior Pastor. **The individual, bookkeeper, treasurer or other, may not be a signer**. This provides for checks and balances.
- ✍ Should a petty cash fund be established, the cash should be maintained in a fire proof safe. Access to the funds should be limited and receipts should be carefully recorded and monitored.
- ✍ Proper documentation (statement, invoice, budget, bill, etc.) should accompany each disbursement.

Internal Controls

(continued)

- ✍ Designated funds for ministries outside the local church should be forwarded to their destination regularly. No such funds should be held longer than 30 days. Persons other than the treasurer or record keeper should regularly review all records.
- ✍ The treasurer shall prepare and distribute a written monthly report for the pastor, Official Board, local finance committee.
- ✍ The report should contain these basic items and as much detail as is appropriate;
 1. Beginning balances
 2. Income for the month
 3. Expenses for the month
 4. Ending balances
 5. Outstanding bills
 6. Confirmation of tithe and missions remittance
 7. Status of all reserves and special purpose funds
- ✍ Monthly reporting should include all checking, savings and investment accounts held in the church's name.
- ✍ An appropriate year end financial statement shall be prepared annually by an independent accountant. This may be a compilation, review or full audit. The report shall be **presented to the Official Board for adoption.** Copies of the report shall be provided to the following:
 1. Senior Pastor
 2. Chairperson of the Board of Trustees
 3. Treasurer
 4. Conference Superintendent

REMITTANCE FORMS

A remittance form should be used whenever a church sends funds to the Conference Office for any of the following:

- ✍ Tithe of contribution income
- ✍ Non-contribution income response
- ✍ United Ministries for Christ-World Missions
- ✍ Compassion Month
- ✍ Bishops Famine Relief
- ✍ Partners in Church Growth
- ✍ Non-UMC Special Growth Projects

The remittance form is a single page (front and back) form, allowing for weekly, semi-monthly or monthly remittance. (See appendix.) Make as many additional copies as necessary. Send the **original** with your check. Should you not be in a position to forward the funds, send the remittance with a note explaining when the funds will be forwarded. Be sure to make copies for the church records and pastor.

Remittance forms are mailed monthly to the treasurer from the conference office. **The remittance for one month is due by the 10th of the following month.**

Contributions to Oak Glen Christian Conference Center, Azusa Pacific University and other affiliated ministries should be sent directly to the recipient agency.

THE ANNUAL REPORT

Every local Free Methodist Church is required to complete an Annual Report. The report contains pastoral, membership, attendance and financial information. The report is submitted to the Annual Conference Secretary or Statistician in January of each year. The deadline is usually around February 1.

The treasurer should take note of the financial page of the report (see example in Appendix) and utilize its structure to set up the local church accounting system. The annual report should include expenditures from all local church accounts including Sunday School, WMI, etc.

Extensive, line-by-line instructions accompany the annual report (now provided on computer disc.) Care should be taken to complete the report accurately as amounts reported for pastoral compensation are used to calculate pension premiums and benefits.

PASTORAL CHANGES

It is the intent of the Conference that a “continuity of employment” be maintained during the time of pastoral moves within the conference as approved by the Ministerial Appointments Committee. There is to be no interruption of salary or benefits during pastoral moves for those pastors moving within the Conference. No church should need to make duplicate salary, vacation or insurance payments as a result of pastoral changes.

The following items are designed to clarify responsibilities and time lines for both pastors and churches involved with a pastoral change:

- **Time Frames** - The Ministerial Appointments Committee has established the policy that the outgoing pastor is responsible for services at the church the pastor is leaving and will be paid through the Sunday following the adjournment of Annual Conference. The incoming pastor’s salary begins on the Monday following Annual Conference. Exceptions to this policy are referred to a committee composed of the Conference Superintendent, the pastor(s) and delegate(s) involved.
- Pastoral changes within the Conference are to be completed as quickly as possible following Annual Conference, but in no case later than three weeks following the adjournment of Annual Conference.
- **Vacation** - It is recommended that pastors anticipating a move take their vacation prior to Annual Conference. It is the policy of the Annual Conference that no local church is to be responsible for duplicate salaries due to unused vacation at the time of pastoral changes. When special circumstances exist, the Ministerial Appointments Committee must approve the arrangements.
- **Social Security** - The outgoing pastor must be paid for all Social Security obligations through the Sunday following Annual Conference. The local church is responsible for the new pastor’s Social Security on the same day it becomes responsible for the pastor’s salary.
- **Medical Insurance** – It is the intent of the Board of Administration that continuous coverage be provided to all ministers continuing in the Conference, that those leaving the Conference be covered through their final date of employment, that those accepting employment in the Conference be insured from their date of employment. The local church is not to be responsible for more than the normal monthly premium during the transition periods.

PASTORAL CHANGES

(continued)

- **Ministers continuing in the Conference** – The church the pastor is leaving is responsible for any applicable June medical, disability, and pension premiums. The church receiving the pastor is responsible for the July premiums.
- **Ministers leaving the Conference** – The local church is responsible for the applicable medical, disability, and pension premiums through the pastor's final Sunday or the end of accrued vacation days, whichever is the latest.
- **Ministers entering the Conference** – The receiving church is responsible for applicable premium payments from the date of the reading of the appointments.
- **Exceptions** – All exceptions must be referred to the Conference Superintendent for approval.
- **Reimbursements** – Should there be need for reimbursements by either the pastor or church, such reimbursements must be made within 60 days.
- **Pension Plan Premiums** – Pension premiums are now adjusted quarterly based upon the annual report and status change forms. Copies of all change forms must be kept on file at the local church as well as the conference office. Forms are available from the conference office. Change forms must be submitted to the Conference office within 30 days from the time of a pastoral change.
- **Parsonages** – The outgoing pastor is responsible to leave the parsonage thoroughly clean. This includes all areas such as the garage/carport, storage areas, provided appliances and yards. The outgoing pastor and Board of Trustees working together will determine responsibility for necessary cleaning, painting and repairs.
- **Parsonage preparation** – The local Board of Trustees is responsible to see that all necessary painting, cleaning, repairs, servicing and other refurbishing is completed before a new pastor takes possession of the parsonage. Whenever practical, the Board of Trustees should consult with the incoming pastor and family in the selection of colors for paint, carpeting and draperies as well as replacement of appliances.

PASTORAL COMPENSATION

SALARY, SOCIAL SECURITY

The Conference has determined that for uniformity and continuity the following items are included in **Pastoral compensation**:

- ✓ Cash Salary
- ✓ Social Security (Self-employment Tax) Allowance
- ✓ Utility allowance (or amount paid by church for parsonage utilities)
- ✓ Household expense allowance

The following items **ARE NOT** part of Pastoral compensation and should not be included when determining the annual compensation level:

- ✓ Fair market rental value of the parsonage
- ✓ Cash given as housing allowance
- ✓ Medical insurance premiums
- ✓ Pension fund payments
- ✓ Tuition discounts from Light and Life Schools
- ✓ Auto and professional expense allowances

Salary, Social Security (continued)

2001 – 2002 Minimum Compensation Schedule

| Church's Annual Budget | Minimum – Weekly Level | Minimum – Yearly Level |
|------------------------|------------------------|------------------------|
| \$100,000 or more | \$616 | \$32,000 |
| \$80,000 – 99,999 | \$577 | \$30,000 |
| \$60,000 – 79,999 | \$519 | \$27,000 |
| \$40,000 – 59,999 | \$500 | \$26,000 |
| \$35,000 – 39,999 | \$462 | \$24,000 |
| Under \$35,000 | see note | see note |

NOTE – When a church's **Gross Annual Income** is less than \$35,000, the pastor's compensation level shall be reduced to part time so that fixed costs and program ministries funding are not impacted. A pastor receiving less than full-time compensation shall be allowed to seek outside employment to supplement her/his income. The local Official Board and the Ministerial Appointments Committee must approve such an arrangement in consultation with the Conference Superintendent.

The Conference Board of Administration strongly urges local churches not meeting the minimum guidelines **to increase compensation to the minimum amount or release the pastor for outside employment.**

The following compensatory items are taxable income for the pastor:

- ✓ Salary
- ✓ Allowances (excluding housing)
- ✓ Honoraria

Salary and Social Security (continued)

These items **plus** housing allowance are also subject to Social Security (Self Employment Tax). When a pastor receives an allowance for housing and/or utility expense and the actual expense is less than the allowance **the remaining amount is taxable income**. If a church pays the pastor the unused portion of a reimbursable expense allowance, **it is taxable**.

The Self Employed Tax rate of January 2001 is 12.4% for Social Security plus 2.9% for Medicare of total compensation including salary, allowances or fair market rental value of the parsonage and honoraria. The formula for determining the S.E.T. is the **Difference of the Total Compensation and the Total Compensation divided by .847 or $(TC/.847) - TC = SET$**

Example: Total Compensation = \$10,000. $(\$10,000/.847) - \$10,000 = \$1,806.38$

A **household expense allowance** is an amount designated for furnishings and other household items when a pastor lives in church provided housing. The pastor may designate a portion of his/her salary for this purpose. The local Board of Ministry must make this designation within the first two months of the fiscal year or within 60 days of a pastor's employment and must be reflected in the board's official minutes. **When a pastor receives a housing allowance, it should include an amount for furnishing, etc.**

An **auto and professional expense allowance** permits the pastor to attend conferences, seminars and retreats; purchase of books, tapes and periodicals; the entertainment of guests and members of the congregation and participation in various community and church events. It also provides compensation to the pastor for use of a personal auto for church related business. At a minimum, the church should provide for the pastor and spouse to attend the Ministers and Mates Retreat and Annual Conference.

Such expenses should be reimbursed to the pastor **upon presentation of an expense report**. This will prevent potential tax problems for the pastor. Auto expenses should be reimbursed up to **34.5 cents per business mile driven and professional expenses on the basis of actual out-of-pocket costs** for entertainment and related expense.

After determining total pastoral compensation and support, the pastor and church should work out an amount to be reflected in the church budget for such expenses. The church may pay the unused amount to the minister in the form of salary. The church should adopt a policy concerning over expenditure of the budgeted amount.

A sample expense voucher and instructions are provided in the appendix of this document.

ADDITIONAL FACTORS TO CONSIDER IN SETTING PASTORAL COMPENSATION

The local Board of Administration should make a careful review of the pastor's compensation at least on an annual basis. This review should include such factors as the cost of living, merit, tenure and other pastoral compensation levels within the conference.

When reviewing pastoral compensation the following questions should be carefully considered:

1. How well are we paying our pastor compared to other churches our size?
2. How does our pastor's compensation compare to the average in the conference?
3. Is our pastor adequately compensated for administrative and management responsibilities in ministries beyond the usual pastoral responsibilities, such as a school or other ministry under the pastors care?
4. Have we provided an increase comparable to the average for churches our size (or equivalent to and exceeding the increase in the cost of living)?
5. How does our pastor's income compare to prior earnings? Would our pastor be paid more if she/he had not come to our church?
6. How does the pastor's compensation compare with other local professional persons with comparable training and experience?
7. Would we be satisfied to have received the same treatment if we were in the pastor's place?

HOUSING

In addition to salary and other allowances defined in the previous section, each church shall provide a parsonage or an adequate housing allowance for the local pastor.

The local Board of Administration of the local church shall determine the interests of the pastor in purchasing his/her own home and, in the event the pastor so desires, the Board of Trustees shall study the feasibility of renting the parsonage and providing an adequate housing allowance to the pastor. Housing allowances are not included in the minimum compensation schedule.

The pastor may shift money from salary to housing allowance to maximize tax advantages. This should be done at the beginning of each fiscal year and be recorded in the official minutes of the proper board. A *Ministers' Request to the Board for Designation of Housing Expense Allowance* information sheet is included in the appendix of this document.

Housing allowances may be adjusted once during any calendar year, but such an allowance cannot be made retroactively. The annual amount **should not include all costs related to maintaining a home**. **Only the actual expenditures, up to the declared amount**, are excludable from gross income for Federal Income Tax calculation. Housing allowances **are** subject to Social Security (Self Employment Tax.)

Pastors living in other than church-provided housing should locate themselves within a 15 – minute driving distance from the church.

The following up-to-date furnishings should be included in the parsonage:

- ❖ Stove
- ❖ Refrigerator
- ❖ Laundry facilities
- ❖ Laundry equipment
- ❖ Carpeting
- ❖ Drapes

VACATION AND LEAVE POLICIES

The **Minimum paid vacation** for pastors, the Conference Superintendent and other executive personnel is **fourteen days** including **two Sundays**. The minimum is increased based on total years of appointed service to the Free Methodist Church as follows:

| Years of Appointed Service | Total Days | Sundays Included |
|-----------------------------------|-------------------|-------------------------|
| 0 – 5 | 14 | 2 |
| 6 – 10 | 21 | 3 |
| 11 | 22 | 3 |
| 12 | 23 | 3 |
| 13 | 24 | 3 |
| 14 | 25 | 3 |
| 15 | 26 | 3 |
| 16 | 27 | 3 |
| 17 - Up | 28 | 4 |

The pastor shall present the dates for vacation to the local Official Board for approval. It is the intent of the Conference that pastors take their vacation before Annual Conference when a pastoral change is anticipated. Vacation days shall not be cumulative beyond Annual Conference except by special arrangement with the local Official Board. The local church is responsible for establishing policies for pastoral staff and employees.

OTHER FORMS OF LEAVE

In the event of **serious illness or death** in the pastor's immediate family, the pastor may have up to four days paid leave. The church should also pay an honorarium for pulpit supply. The pastor's cabinet should be consulted for any further contingencies.

Recognizing that both the pastor and church benefit by the pastor's personal growth resulting from service as an evangelist, teacher and "ministry specialist," the pastor should be allowed to conduct one, and if possible, two or more evangelistic meetings and/or other impact events which are well spaced over the year. A reasonable guideline is up to two weeks ministry including two Sundays. **The church shall pay pulpit supply costs.**

Pastors elected as General Conference delegates should **not have** travel or actual conference attendance days counted against their allotted annual vacation.

The pastor and spouse are expected to attend the Minister and Mates Retreat each year. The time spent at the retreat will not be counted as vacation.

The pastor and spouse may attend a conference sponsored Marriage Encounter Weekend which shall not count as vacation. **The church shall pay pulpit supply costs.**

The local church is responsible for establishing leave policies for pastoral staff and employees.

MISCELLANEOUS

Each church should include pastoral counseling liability insurance for the pastor(s) in their insurance package.

Several helpful publications concerning clergy tax considerations are available. Churches and pastors are urged to utilize these publications for budget planning and tax planning.

CARE OF PASTORS: A COMPREHENSIVE PLAN

The care of pastors is a primary responsibility of the conference. This care involves not only the identification and nurturance of those called to serve in the future, but also the continued care and guidance of those who are currently pastors of congregations. Though the responsibility for their physical, emotional, educational and spiritual health is that of each individual pastor, the conference is committed to being an organism in which the individual lives of pastors and the corporate lives of congregations flourish. To ensure this health, the following “Comprehensive Plan for the CARE OF PASTORS” is available to pastors and congregations for their mutual health.

Due to the often unrecognizable nature of pastoral stress and burnout, the superintendent and district leaders will help those within their care to identify and intervene when there are signs of burnout or stress in ministry. (For those in staff positions, the senior pastor will care for his/her staff in the same manner as their district leader and superintendent cares for pastors). The first level of this intervention is to regularly discuss with pastors at district meetings the healthy balance of their ministries and lives. This balance would include the expectation for pastors to have a regular pattern which would include: daily prayer time, marriage communication time, family time, weekly day off, taking of vacations and personal and professional continuing education through reading, classes and other appropriate means. This balance would also include specific protections from the temptations and struggles inherent within pastoral ministry.

Because signs of burnout are difficult to detect early (such as depression, disillusionment, emptiness, loneliness, unusual tiredness, blaming, resentment, anger, marriage difficulty, parenting difficulty, ministry distractions, ministry boredom, ministry avoidance, etc.), a second level of care is also advised. To assist at this second level, the conference makes available the following resources and guidelines:

1. Pastoral Renewal and Counsel: The conference provides two types of experiences which confidentially allow the pastor to work through the difficulties and stresses of ministry. The first is clinical sessions and the second is periodic retreats.
 - a. On-going Counseling received in a clinical Christian setting to address the underlying causes of difficulty.
 - (1) Counseling Fund pays for counseling sessions with approved counselors.
 - (2) Assistant Supt. for Counseling - Gary Enniss, MFT - is on conference retainer to provide counsel and support in a confidential clinical setting.

CARE OF PASTORS: A COMPREHENSIVE PLAN

(Continued)

- b. Pastoral Renewal Retreats - Dr. Denny Wayman, DMin and Cheryl Wayman, MFT - The conference provides couple and individual sessions with this pastoral couple through overnight retreats in Santa Barbara (costs for motel and meals are the responsibility of the ministerial couple or their congregation). During this "Pastoral Renewal" the stress of ministry and the issues of pastoral families are explored and healing is begun.
2. Educational Scholarships and Assistance: The conference provides two types of educational assistance:
 - a. Continuing Education Guidance - The Superintendent and MEG Board are available to help the pastor fulfill the requirement that each pastor have a plan for Continuing Education. This helps pastors stay fresh and equipped with current ministry information and resources.
 - b. Conference Scholarships - In addition to the denominational "John Wesley Seminary Foundation" scholarships which pay for about 45% of the master's level work for CMCs and above, the conference also has some funds for assistance in graduate programs, masters and doctoral.
3. Sabbatical Leaves: The conference encourages pastors to take sabbatical leaves for the purpose of renewing and retooling themselves for ministry. There are two types of sabbaticals which may be chosen in conjunction with the Superintendent, MEG Board and Local Board of Ministry. The financial support package of the pastor will be continued during these sabbaticals in cooperation with the local church and conference.
 - a. Sabbaticals to finish advanced degrees:
 - (1) One day a week - to attend Seminary or Graduate school.
 - (2) Period of time away from the pastorate to complete a DMin or other intensive educational goals. These may be two-week classes annually for several years including time each week to prepare for these classes, or a year-long DMin program at an approved seminary.
 - b. Sabbaticals to renew spiritual vitality and vision for ministry. Up to three months can be taken in which the pastor will step out of the daily responsibilities of ministry and engage in an approved plan of renewal experiences. These renewal experiences can be such things as: Participating in a renewal experience for pastors at one of the retreat centers listed at http://www.pastornet.com/links/retreat_centers.htm; Exposure to a variety of pastors and congregations, and processing this information with their District Leader or designate; etc.

EQUIPPING FOR MINISTRY

Each church shall provide an attractive, adequate study for the pastor's use, preferably on the church premises.

Each church should provide a well-equipped office and provide serious consideration to securing adequate secretarial assistance for the pastor.

APPENDIX
