



A Matter of Good Stewardship: Tips for Responsible Handling of a Pastor's Discretionary Fund

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United Methodist churches commonly have a fund called the pastor's discretionary fund, which is intended to give the pastor complete discretion and authority to provide confidential financial support to persons in need. In some local churches, the pastor is given free reign, with no guidelines or instructions on how the church intended for the pastor to handle these monies. In other local churches, the pastor is given some guidance, but it may be very general or unclear, given orally or understood culturally. In addition, in some churches pastors understand that they can use these funds to pay for program or other expenses that are not totally covered by the budget. All of these churches and their pastors no doubt are unaware of the potential for misuse of funds and the income tax consequences to these arrangements.

Regardless of the level of trust between the congregation and its pastor (or between the pastor and the finance committee, treasurer and financial secretary) written policies for the responsible handling of the pastor's discretionary fund are beneficial for everyone and should minimize misuse of funds and negative income tax consequences. If the pastor has complete discretion, without clear guidelines or financial policies, there is a risk that the entire fund could be construed as income to the pastor, simply because the pastor ultimately has the discretion to pay the funds to himself.

TIPS

Set forth below are some tips for local churches on the responsible handling of a pastor's discretionary fund.

- Establish a written policy that: 1) sets forth the exclusive purpose(s) of the fund with specificity and clarity (Is it to be used only for providing assistance to the needy? May the pastor use it for any other purposes and, if so, for what specific purposes, consistent with the program and budget of the church); 2) requires the pastor to document and record distributions from the fund (and authorizes the church to request additional documentation) showing the types of assistance provided during any given year (for example: \$100 gift card from a local grocery was given to a needy family to purchase groceries; \$500 was paid to the hospital for a needy family to pay for hospital emergency room treatment for a seriously ill child; \$150 was paid to a transportation company for a needy elderly woman to provide her with transportation to and from a kidney dialysis center for a year; bus tickets and a new pair of shoes and slacks were purchased for a homeless person who had a job interview); 3) encourages the pastor to use the monies for goods and services rather than cash assistance (examples: taxi fare, bus ticket, a bag of groceries, a pair of shoes, a doctor bill), which helps to protect the pastor, the church and the persons receiving assistance from accusations of irregularity or private inurement; 4) requires the pastor to request the funds from the treasurer on some type of request voucher form, as an internal control mechanism over access to the fund (note: this can be done and still maintain confidentiality for the specific needy persons who will be beneficiaries); 5) requires the fund to be audited with the other church funds; 6) states that the fund may not ever be used by the pastor for himself or his family, and 7) limits the dollar amount that may be expended at any one time without advance written permission from the church council or finance committee.
- Educate new pastors, finance secretaries, treasurers, finance committee chairs and church council chairs on the existence and purpose of the fund and the internal controls

and policy that have been established to protect the church and all persons from accusations of irregularity or private inurement;

- Give the pastor authority to distribute the fund only for the specified purpose and consistently enforce the limits on this authority;
- Educate all new pastors about the policy, and ensure that they understand the church's protocols (for example, make sure the pastor knows that the funds can never be used personally or for any family member, for any purpose, including but not limited to college tuition for the pastor's children or other family members; health care expenses for the pastor and his family; emergency cash for the pastor or family members; etc.)
- Educate all new pastors, treasurers and financial secretaries about these matters, and ensure that they understand the potential income tax implications if the church's policy is not followed carefully
- Ensure that the pastor does not keep a stash of emergency cash in his/her desk for quick disbursement, because security and internal controls for cash in a desk drawer are inadequate;
- Account for all expenditures on church financial statements and reports, including the Local Church Statistical Table II
- Retain administrative control over the fund to ensure that all distributions further the church's mission and ministry, and are in keeping with its tax exempt status.
- The church should make provisions for an annual audit of this fund according to *The Book of Discipline* page 617.

EXAMPLES OF INAPPROPRIATE USE OF PASTOR'S DISCRETIONARY FUND

1) Appropriate: Pastor Dave's church has a written discretionary fund policy with careful internal controls. The annual budget for the fund is \$2,500, and Pastor Dave is allowed to spend no more than \$300 at any one time. The written policy specifies that the discretionary fund may be used only to provide care for the needy. During the year, Pastor Dave submits appropriate documentation for the following expenditures under this fund: 1/5/01 - \$100 for grocery coupons for needy family in church community; 2/14/01 - \$200 to

Meadows Community Center, Inc. for winter boots for children of needy families; 2/20/01 - \$100 paid directly to utility company for heat bill for needy family; 4/10/01 - \$172 for groceries for homeless family in church community; 4/3/01 - \$100 for 5 bus passes for men at homeless shelter; 8/1/01 - \$300 for Wesley House for school supplies for needy children; 8/20/01 - additional \$300 for Wesley House for school supplies for needy children (approval of church council obtained for additional expenditure); 10/15/01 - \$275 for groceries for food pantry for Thanksgiving baskets for needy families; 11/2/01 - \$200 for winter coats for children at Meadows Community Center; 11/30/01 - \$50 for cab fare coupons for elderly woman in need of transportation for kidney dialysis until regular volunteer driver's car is repaired.

2) Appropriate expense but troublesome procedures: Pastor Bob is given a \$5,000 discretionary fund each year. The church does not have a written policy about how the funds are to be used. The funds are kept in a separate checking account, for which Pastor Bob is the sole authorized signer on the account. Pastor Bob always uses the funds for the same purposes each year: to purchase school supplies and winter coats for needy children in the area; to provide homeless persons with a Thanksgiving and Christmas dinner at a local restaurant; to purchase food and bus passes for the church's most needy families. While the use of the funds in this example is fine, the scenario is troublesome because of: a) the lack of internal controls (two signers on the account; documentation of the expenses for the church treasurer or financial secretary; b) the absence of a written policy stating that Pastor Bob may not use the funds for anything other than assistance to needy persons and families; and c) the absence of any protocols to prohibit Pastor Bob from using the funds for any personal purposes may make the entire \$5,000 taxable income to him.

3) Might be inappropriate: Pastor Nancy used the discretionary fund to buy a bag of groceries for all new members of the church. While it is certainly appropriate for the church to give a small gift of hospitality to all new members of the church, the pastor's discretionary fund should not be used for this purpose unless the written church policy specifically states that this is one of the authorized purposes for the discretionary fund. It would be more appropriate for the hospitality gifts for new members to come from the budget of the evangelism committee. It would be especially inappropriate to use the discretionary fund for hospitality gifts to all new members if the church's

policy intends for the discretionary fund to be used for needy families, unless all new members of the church qualified as needy.

4) Unwise under most circumstances: Pastor Tom distributed \$1,000 out of the discretionary fund to pay for Christmas gifts to his staff. It is appropriate for a church to authorize its pastor to use church funds to take staff out for a Christmas lunch, at the church's expense, and it is appropriate for the church to buy small gifts of appreciation to staff for special occasions. It is best for these expenses to come from a specific line item in the budget where other staff support expenses are borne; also it might be more appropriate for these types of expenses to come from the budget of the pastor parish relations committee, where there may be greater accountability and control over the expenditure.

5) Probably inappropriate: Pastor Frank used \$2,000 of the discretionary fund to pay for new appliances in the kitchen of the parsonage. While new appliances might have been needed and would be an expense appropriate for the local church to make, if it chose to do so, this scenario is troublesome because: a) the church should make the decision about what to upgrade in the parsonage, if the church is going to pay for that expense; b) the expenses of upgrading the parsonage should come from the budget for church property, or out of the pastor's housing allowance, depending on the circumstances and the arrangements between the church and the pastor regarding parsonage expenses; c) the discretionary fund should not be used for anything that appears to be for the benefit of the pastor or his family.

6) Always inappropriate: Pastor Alice borrowed \$5,000 from the discretionary fund to pay for her son's college tuition expense.

7) Always inappropriate: Pastor Sally distributed \$5,000 out of the discretionary fund to assist her daughter with the down payment for the purchase of a first home. Her daughter otherwise would not have been able to purchase the home.

8) Always inappropriate: Pastor Sue's church has a written discretionary fund policy with careful internal controls. The annual budget for the fund is \$5,000, and Pastor Sue is allowed to spend no more than \$500 at any one time. The written policy specifies that the discretionary fund may be used for any of the following purposes: 1) providing care for the needy; 2) for special church projects that come up during the year without other budget dollars for support, provided that the

pastor seeks approval of the church council before spending the money for any such project. The youth group approaches Pastor Sue to ask for help with a mission project that the church council will not agree to fund. Pastor Sue agrees to provide \$400 for the project. While the project might qualify for support under the discretionary fund policy (purpose #2), Pastor Sue should have gone to the church council for approval before agreeing to support the project.

In summary, regardless of how a church decides to fund a pastor's discretionary account (through the annual budget, special offerings, etc.), a written policy on usage with specificity and clarity, together with sound internal controls, are important protections for the pastor, the church, and those who are recipients of the funds. Confidentiality for recipients can be maintained even with these sound internal controls. Protecting the church's assets is a matter of good stewardship of the gifts that have been entrusted to the church to do God's work in the community and world.

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