

## Preschool and Afterschool Ministries Exemption from Operational and Staffing Expenses

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### Background:

For many years, our Conference has followed a practice—shared largely through oral tradition—of exempting preschool and afterschool ministries from reporting Operational and Staffing Expenses on Table 2 (Statistical Reports). This approach has been intended to encourage community outreach with families and young people in structured learning environments, while also easing the impact of staff compensation costs in apportionment calculations.

This document begins the process of recording this practice for future clarity and consistency.

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### Summary of Practice:

- **Preschool and afterschool ministries** operated by a local church are **excluded from portions of Table 2 reporting** if they do not generate revenue that flows into the church's general fund.
  - **Preschool and afterschool staff compensation is not reported on Line 70 (Operational and Staffing Expenses)** of Table 2.
  - The **key condition** for this exemption is that the program must not produce **revenue that flows into the church's general operating accounts**—meaning the church does not receive financial income from tuition, registration, or operations of the preschool/afterschool ministry.
  - The **Benevolent Use Calculator is not applicable** to preschool and afterschool ministries unless they meet a missional threshold whereby **no funds are accepted** from families.
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### Preferred Financial Practice:

- Churches are strongly encouraged to **maintain separate financial records** for preschool and afterschool ministries.
  - All **income and expenses** (staff salaries, curriculum, supplies) should be recorded **independently** from the church's general budget.
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### Special Notes on Capital Expenditures:

- **Capital expenditures** (e.g., major building improvements) related to preschool and afterschool spaces should be reported on **Table 2, Line 74b**.
  - These expenses are **excluded** from apportionment calculations.
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## Examples:

### **Option 1: Church-Operated Preschool or Afterschool Ministry**

Your church has a preschool or afterschool ministry that shares the church's name, tax ID, and legal responsibility. It is a ministry extension of the church and operates under the authority of the church's governing body. The Preschool/Afterschool staff compensation, programming expenses, and preschool-paid operational expenses are **not reported** on Table 2.

[Preschool/Afterschool staff include but not limited to director, teachers, coaches, and those compensated through Preschool/Afterschool accounts]

Preschool-paid expenses may include insurance, staff training, or contracts for services used exclusively by the ministry. However, **any shared services extended by the church** (e.g. copier contracts, insurance, campus-wide cleaning) **must be reported** as part of the church's operational/programming expenses on Table 2.

*Note: Most NCCUMC preschools and afterschool programs follow this model.*

### **Option 2: Church-Operated Benevolent Preschool or Afterschool Ministry**

Your church operates a **free preschool or afterschool program** as a missional outreach in the community. Families do not pay tuition and may offer non-financial buy-in (e.g., volunteer time). In this rare case, you may use the **Benevolent Use Calculator** to reduce reported operational expenses. This option applies only when no tuition or required fees are charged to participating families.

*Please consult with the Conference Statistician, District Superintendent, or AADS before applying this exemption.*

### **Option 3: Facility-Use-Only, Unrelated Preschool or Afterschool Program**

Your church **houses** a separately incorporated, not-for-profit preschool or afterschool program that is **organizationally, financially, and missionally independent** from the local church. The relationship is limited to **facility use only**.

This arrangement is characterized by **all** of the following:

- The preschool/afterschool program has its **own legal identity** (separate 501(c)(3), governing board, and tax ID).

- The program maintains **independent financial records**, including payroll, operating expenses, insurance, and banking.
- **No tuition, fees, or program revenue** flow into the church's general fund or operating accounts.
- The program is **not governed by the church council**, does not appear in the church's mission or ministry structure, and is not presented as a ministry of the church.
- Any payments made to the church are limited to **facility-use fees or lease payments** and are treated as rental or use income.

**In this case:**

- **No reporting related to the preschool or afterschool program is required on Table 2 for income, expenses, or staffing.**
- This arrangement **does not qualify as benevolent usage.**
- Facility-use income (if any) should be reported according to standard accounting practices for building use or rental income.
- Churches should ensure that **written facility-use or lease agreements** are in place and reviewed by the trustees, clearly defining responsibilities for utilities, maintenance, insurance, liability, and access.