



UNIVERSITY UNITARIAN CHURCH

FINANCE POLICIES

Approved by the Finance Committee
07/24/2018

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1 INTRODUCTION

1.1 Purpose

The Finance Policies describe the conventions, account structures, reports, and processes that the Executive Team uses to manage the financial resources of the Church. They take up where the Board's Governance Policies leave off, providing more specific detail. They also provide the foundation for the accounting procedures, documented separately, that are used by the Director of Operations and the Accountant to manage the day-to-day financial business of the church.

1.2 Formation and Approval

The Finance Policies are drafted and periodically revised by the Executive Team with the support of the Finance Committee. Amendments shall be reviewed alongside Board governance policies and church bylaws to ensure there are no conflicts, and the Board alerted if such a conflict would occur. A proposed finance policy that would require an amendment to Board governance policies or church bylaws to resolve a conflict must not be adopted until those policies are revised.

2 ACCOUNTING CONVENTIONS

2.1 Financial Position and Activities

2.1.1 Assets, Liabilities, and Net Assets (Financial Position)

The Church's basic financial position at a point in time (its wealth) is summarized by its *Net Assets*, which are defined as the difference between its *Assets* and its *Liabilities*.

Assets are any resource that belongs to the Church, whether in the form of liquid assets, such as cash or cash equivalents; or tangible property, such as real estate.

Liabilities are any sums that the Church owes to other parties, such as payroll taxes, insurance premiums, accrued vacation pay for employees, tenant deposits, or loans to financial institutions.

2.1.2 Revenue and Expenses (Activities)

The flow of financial resources into and out of the Church are tracked using Revenue and Expense accounting categories. Revenue and Expenses do not accumulate from year to year, but are tracked annually.

2.2 Restricted and Unrestricted Net Assets and Activities

The Church's Net Assets and Activities must be classified as either Restricted or Unrestricted. Revenues are restricted when a donor specifies that a gift may be used only for a certain purpose or in a certain time period (see Section 5, Receipt of Gifts). It is

essential to note that the Board cannot place a donor's unrestricted gift into restriction, nor can it take a donor's restricted gift out of restriction. Restricted Net Assets and Activities must be tracked separately from unrestricted Net Assets and Activities).

Restricted Net Assets can further be classified as either temporarily restricted or permanently restricted:

- Temporarily Restricted Net Assets are those that a donor restricts by time or purpose. These Net Assets may only be used in the timeframe specified by the donor or for the purpose specified by the donor. The most common form of resources temporarily restricted by time are pre-paid pledges, which are not available for use until the beginning of the fiscal year for which the pledge was intended.
- Permanently Restricted Net Assets are those that a donor declares are to be preserved in perpetuity, not to be expended or disposed of directly. The Net Assets are to be used to generate additional income which can be expended.

Absent an explicit donor restriction, resources are unrestricted. Unrestricted resources may be expended or saved at the discretion of the Board of Trustees, in accordance with the congregation's mission and vision and its annual operating and capital budgets.

2.3 Operating, Capital and Legacy Funds

To facilitate responsible stewardship that balances short-term, medium-term, and long-term needs, the Church further divides its resources into three Funds: Operating, Capital, and Legacy:

2.3.1 Operating Fund.

The Operating Fund contains resources involved in the day-to-day operations of the Church.

2.3.2 Capital Fund

The Capital Fund contains resources intended to maintain or enhance the Church's assets, principally its physical property embodied in buildings and equipment.

2.3.3 Legacy Fund

The Legacy Fund represents long-term "savings" which are intended both to preserve resources for "those who come after us" and to generate earnings that can be used to support either on-going operating needs or unspecified one-time needs.

The Funds must reflect distinct Revenue, Expense, Asset, Liability and Net Asset accounts, reflecting the activities and positions of each fund. The accounting of the financial position and activities of the three funds shall support reporting them separately and in a consolidated format.

During annual closing, the Executive Team shall not conduct net asset transfers between the Operating, Capital, and Legacy Funds without prior Board approval.

2.4 Modified Cash Basis

Church accounting shall be done on a modified cash basis. All gifts are recorded and invoices paid on receipt, rather than accrued month to month. At the end of the fiscal year, adjusting entries shall be created to accrue all remaining expenses and depreciate all capital assets. These adjusting entries shall enable the books to be closed at the end of the fiscal year in a GAPP-compliant manner (see 3.3, Annual Closing Report).

2.5 Designated Accounts

The church shall maintain designated accounts for unbudgeted activities not related to church programming and operation. These accounts for such activities as retail sales (books and art, for example), retreat fees collected and expended, and ministers' discretionary funds, must appear as distinct from the budgeted revenues and expenses of the church, but must be rolled up into unrestricted activities at the close.

3 BUDGETING

3.1 Operating Budget

To facilitate the congregational approval of an annual budget, as required by the Bylaws (Article III, Section 3), the Executive Team shall recommend to the Board of Trustees an annual operating budget. This proposed budget must not plan for a deficit: budgeted revenue and support, which includes operating revenue and planned uses of restricted net assets, shall equal or exceed budgeted operating expenses. Budgeted revenue requires an identified source of funds, and a certainty based on historical patterns that the income will be realized. Each anticipated use of restricted net assets must be adequately documented to demonstrate that the restrictions of the gifts will be met. On Board approval, this budget shall be presented to the congregation for approval.

3.1.1 Capital Plan and Capital Budget

The Executive Team shall maintain a rolling five-year Capital Plan that identifies all recommended capitalized expenditures anticipated over the next five-year period. As per UUC's Board Governance Policies (as of March 2015), capital expenditures are all payments for any building additions, major improvement projects or equipment purchases over \$5,000.00 each.

In addition, each year the Executive Team shall present an annual capital budget for all revenue and releases of net assets from restriction that will satisfy the capital expenses anticipated for that year. If the capital budget requires the use of unrestricted net assets from previous years (capital reserves), this must be clearly stated.

Any items in the Capital Plan that require business decisions by the Board or the congregation shall be elevated to the appropriate business meeting of the Board or congregation for approval. Per the bylaws of the church, congregational approval is required for any appropriation in excess of \$50,000.

3.2 Operating Fund Surplus or Deficit

In the event that unrestricted operating revenues exceed expenses minus net assets released from restriction in a given fiscal year, the surplus shall flow to the unrestricted net assets of the Operating Fund, which are also referred to as Operating Reserves.

In the event that unrestricted operating revenues are at risk of falling short of expenses minus net assets released from restriction, the Finance Committee shall recommend action to avoid a deficit as the close of the fiscal year. These actions may include but are not limited to a) additional fund raising or b) cuts in planned expenses. If such actions are unsuccessful, and a deficit remains, the Finance Committee shall recommend a reduction, equal to the final deficit, in the unrestricted net assets of the Operating Fund (i.e., Operating Reserves) at the close.

4 RECEIPT OF GIFTS

4.1 Gifts to the Church

The Church encourages its members and friends to make gifts to the Church. Gifts may take the form of cash, stock, other appreciated assets, in-kind professional services, or real or personal property. Gifts may be received during the donor's lifetime or posthumously in a will, bequest, or other planned giving instrument.

Gifts may be unrestricted, temporarily restricted, or permanently restricted. Note that "restriction" is defined as the instructions of the donor only, as follows:

- Temporarily restricted gifts are those gifts that a donor restricts by time or purpose. Such gifts may only be used to offset expenses that meet those restrictions (that is, that are made in the timeframe specified by the donor, or are made in an effort to meet the purpose specified by the donor). Examples of Temporarily Restricted Gifts are pre-paid pledges (restricted by time) and gifts to the Sharing Fund (restricted by purpose).
- Permanently restricted gifts are gifts that a donor has specified must not be invaded. The principal (beginning value) of such gifts may be invested in the Camilla M. Knatvold Legacy Fund Investment Account. Permanently restricted gifts shall be added to permanently restricted net assets.

- All other gifts are unrestricted gifts, which may be expended or saved at the discretion of the Board of Trustees in accordance with the congregation's plans for the Operating, Capital, and Legacy Funds.

It is essential to note that the Board cannot place a donor's unrestricted gift into restriction, nor can it take a donor's restricted gift out of restriction. The Board reserves the right to designate that an unrestricted gift be used for specific purposes in the interest of advancing the mission and vision of the church. However, an unrestricted gift designated by the Board for a specific purpose is still an unrestricted asset on the statement of financial position.

4.2 Acceptance of Gifts by the Church

The Executive Team is authorized to accept any gift on behalf of the Church, except (1) gifts made with restrictions on the gift's use, and (2) gifts that will affect the Church building or grounds. Restricted gifts and gifts affecting the Church facilities shall be accepted by resolution of the Board of Trustees.

In determining whether to accept a gift, the Executive Team shall consider its compatibility with the Church's mission and vision, the practicality of the gift, any restrictions on the gift's use, and the impact of the gift on Church operations. The Church reserves the right to reject any gift, for any reason.

Concerning the practicality of gifts, the church reserves the right to keep fixed assets or liquidate such assets in the interest of advancing the mission and vision of the church.

Per the Governance Policies of the Church, the Executive Team shall inform the Board of Trustees of the receipt of a one-time unrestricted or restricted gift over \$10,000.

The Executive Team shall acknowledge gifts accepted by the Church, and maintain a central record of all gifts, including any restrictions. All contributors shall receive an annual statement of deductible gifts received in their name during a calendar year.

Once a gift has been received and acknowledged by the Church, it is irrevocable.

4.3 Fund Categorization of Gifts

After a gift is accepted, the Executive Team, either alone (for gifts under \$10,000) or in partnership with the Board of Trustees (for one-time unrestricted gifts of \$10,000 or more unrelated to fulfilling a pledge on record), shall determine the appropriate fund categorization for the gift.

When possible, the gift shall be assigned to the fund that best reflects the donor's intentions for the Church community and its mission. In the absence of such a connection, strong consideration shall be given to the Knatvold Legacy Fund, unless the

Executive Team and the Board of Trustees agree that the Capital Fund or Operating Fund has a greater need.

5 INVESTMENT OF FUNDS

5.1 Bank Accounts

At a minimum, the Church maintains three primary bank accounts to contain the liquid funds of the church.

5.1.1 Operating Checking

This account allows the receipt and dispersal of gifts and payables (payables include payroll, accounts payable, and staff and member reimbursable expenses).

5.1.2 Operating Money Market

This account allows the retention of operating cash for use in 2 to 5 years in an interest-bearing account with better returns than standard bank savings accounts. Transfers between Money Market and Checking allow the church to respond to fluctuations in monthly cash flow.

5.1.3 Capital Checking

This account allows the receipt and dispersal of gifts and payables related to the Capital Plan (see section 4.2). Payables include contractor invoices payable, purchases of capitalized equipment or furnishings, and other transactions related to the purchase or sale of property of the church.

In addition to these three bank accounts, the Executive Team is authorized to maintain additional bank accounts that support financial operations (e.g., a local business savings account for receipt of cash donations, or a money market account associated with a brokerage that allows the receipt and sale of gifts of stock). During the fiscal year, balances shall be swept on at least a quarterly basis from secondary bank or non-interest bearing accounts into the primary bank accounts.

5.2 Investment Accounts

The Church maintains two investment accounts to which major gifts can be directed by donors or designated by the Board of Trustees for the future of the Church and its mission and vision.

5.2.1 The Camilla M. Knatvold Legacy Fund Investment Account

This account is established to hold gifts, bequests, and other contributions for the future benefit of UUC. Account principal is defined as any gift or donation deposited to the account. By the direction of the Board of Trustees, the

unrestricted principal of the account shall remain intact and not be expended. Only the retained earnings of the account may be expended or transferred.

To preserve the principal of the account over the long term, no more than four percent (4%) of the total market value of the account in any given year may be expended or transferred. For the purpose of such calculations, total market value shall be determined by the lesser of the balance of the account at the end of the first quarter of the calendar year or the average of the market values at the end of the previous four quarters. For policies regarding the determination of the amount expended or transferred in a given year, see section 1, "Accounting and Budgeting."

The Executive Team has full authority to accept and deposit unrestricted donations to the Knatvold Legacy Fund Investment Account. Donor-restricted gifts must be approved and accepted by the Board of Trustees before they are deposited.

In the event that UUC should become inactive for two years and wholly cease to function, and if it appears that there is no hope of revival of the church, then the Board of Trustees shall cause the Knatvold Legacy Fund Investment Account to be distributed to the Unitarian Universalist Association.

5.2.2 The Peter S. Raible Capital Fund Investment Account

This account is established to hold gifts, bequests, and other contributions to offset expenses of capital projects planned by the Executive Team. (For a discussion of capital projects and capital plans, see section 4.2, Capital Plan and Capital Budget.)

Donations without specific project restrictions are encouraged; however, the Executive Team may accept and deposit both unrestricted gifts and restricted gifts for any planned capital projects. Gifts restricted to projects not recommended by the Executive Team must be approved and accepted by the Board of Trustees before they are deposited.

In addition to gifts restricted to planned capital projects, the Executive Team may also accept and deposit gifts restricted by donors for future capital project gift matching. The principal of these gifts to the account shall be held in restriction until they are matched by new unrestricted or restricted matching gifts in connection to capital fundraising.

In the event that UUC should become inactive for two years and wholly cease to function, and if it appears that there is no hope of revival of the church, then the Board of Trustees shall cause the Raible Capital Fund Investment Account to be distributed to the Unitarian Universalist Association.

All investments of the Camilla M. Knatvold Legacy Fund Investment Account and the Peter S. Raible Capital Fund Investment Account shall be in accordance with the Church Investment Policies.

5.3 Investment Policies

The accumulated monies in any and all investment accounts shall be managed by a professional investment manager or investment management firm. The primary goal of the manager or firm assigned the management of Church investments shall be to retain the purchasing power of the principal, consistent with a level of risk appropriate to the duration for which the monies will be held in investments.

The investment manager or management firm shall establish additional and more detailed investment policies in cooperation with the Church that reflect these general goals, and that are guided by the following restrictions, constraints, and considerations:

5.3.1 Prohibited Assets

- a. Commodities and futures contracts
- b. Option contracts
- c. Real estate, or non-liquid loans secured by real estate, except property held for a particular purpose, such as future expansion
- d. Investments directly benefiting a member of the congregation
- e. Precious metals
- f. Collectibles

5.3.2 Prohibited Transactions

- a. Short selling
- b. Margin transactions
- c. Games of chance

5.3.3 Gifts of Prohibited Assets

The Church may accept gifts of assets listed under section 5.3.1 (Prohibited Assets), however, all such gifts shall be liquidated in a prudent and timely manner and reinvested in allowable assets, unless expressly prohibited by restrictions accompanying such gifts.

5.3.4 Social Responsibility

The Investment Manager shall favorably consider investments that hold securities of companies that are screened for alignment with the social justice objectives of the Church, as articulated from time to time by the Social Justice Steering Committee.

6 FINANCIAL OPERATIONS

6.1 Expenditure Approval

Any single, budgeted expense item over \$50,000 shall be approved by the congregation before the Executive Team enters into a purchase agreement or contract for services. The Executive Team is authorized to approve all expenses under \$50,000.

6.2 Authority to Make Financial Transactions and Sign Bank Drafts

The President, Treasurer, Senior Minister, and Director of Operations are authorized to sign bank drafts and make financial transactions. The Board of Trustees may, by annual resolution, provide authority for other officers and employees to sign bank drafts and make financial transactions.

6.3 Accounting Controls

The Executive Team shall document in detail and use such controls and procedures on receipt of cash and checks, and on handling receipt of credit card and direct debit transactions, as will ensure the security of funds, compliance with terms of banking service providers, and the auditable quality of all revenue activities.

Likewise, the Executive Team shall document in detail and use such controls and procedures for the approval and distribution of funds in payment of the church's obligations and expenses as will ensure the security of funds, compliance with terms of banking service providers, and the auditable quality of all expense activities.

6.4 Bidding Requirement

The Executive Team shall request competitive bids for services, materials, and capital items (purchased or leased) that are anticipated to cost \$50,000 or more. The bid shall be awarded on the basis of the reasonableness of the bid, quality of materials and workmanship, references, licenses, and any other appropriate criterion. The award shall not be limited to vendors who present the lowest bid.

6.5 Audit

Per the Bylaws of the Church, the Board of Trustees shall commission an independent, certified audit of the Church finances at least every three years. A copy of the final audit shall be on file in the Church office for inspection by any Church member.

APPENDIX A

A.1 Capitalization and Depreciation of Fixed Assets

In its statements of financial position, the Church states the value of fixed assets and real property at cost or fair market value at the date of contribution or purchase, or in the case of capital improvements, at the date of substantial completion or start of service. The cost of any item to be capitalized must be equal to or more than \$5,000.

Depreciation expenses are entered each year in the church's statement of financial activities to reduce the net value of fixed assets and real property over time. Depreciation is computed using the straight-line method over the estimated useful lives of assets, as follows:

Non-residential buildings and facilities	40 years
Residential rentals	30 years
Organ and musical instruments	20 years
Furniture and fixtures	10 years
Office equipment	5 years
Vehicles	5 years