

# Congregational Resolutions to Implement The Recommendations of the Committee on Money

*(With jointly agreed to clarifications made at the Board Meeting, 1/12/2016, and endorsed by vote of the Board)*

## VOTER SUMMARY

*The Committee on Money prepared this Voter Summary for the Resolutions. The full texts of the Resolutions start next page.*

1. **Resolution I: Establishes** a set of general **Church Financial and Accounting Principles and Practices** to clarify and strengthen our current practices.
2. **Resolution II: Establishes an Operating Account** to provide liquidity for the ordinary financial operations of the Church and,
  - a. Adopts the **Operating Account Purposes and Definitions**,
  - b. Makes an **Initial Allocation of \$30,000** to this account, and
  - c. Establishes **Procedures to Maintain the Liquidity/Balance** of the account by transfers from *the Deficit Reserve account and other Reserve Accounts*.

### RESOLUTIONS III, IV, V, and VI - RESERVE ACCOUNTS

3. **Establish and Define Purposes for Five Reserve Accounts, with Initial Dollar and Future Percentage Allocations**
  - a. **Resolution III-a: Establishes the Catastrophe (Insurance Deductibles) Reserve Account.**
  - b. **Resolution III-b: Establishes the Capital/Building Reserve Account**
  - c. **Resolution III-c: Establishes the Contingency Reserve Account**
  - d. **[Resolution III-d: Deficit Reserve Fund for the approved 2015-2016 Annual Budget – already established]**
  - e. **Resolution III-e: Establishes the 2016-2017 Annual Budget Deficit Reserve Fund for a possible deficit.**
4. **Resolution IV: Adopts Reserve Account Standards and Practices.**
5. **[Resolution V: Initial Funding Allocations for the new Reserve Accounts– included in Resolutions III-a to III-e. (Now shown as a table summarizing the initial funding Allocations)]**
6. **[Resolution VI: Allocation Percentages for future Unrestricted or Undesignated Bequests and Non-pledge Gifts to the Church to the new Reserve Accounts. – included in Resolutions III-a to III-e. (Now shown as a table summarizing the future funding Allocation percentages) ]**

### RESOLUTIONS VII, VIII AND IX – ENDOWMENT FUND:

7. **[Resolution VII: Defines the Church's Endowment Fund – included in Resolution VIII.]**
8. **Resolution VIII: Authorizes and Establishes a Church Endowment Fund to Provide Future Earnings for the Church.**
  - a. Defines Church's Endowment Fund as a type of fund that accumulates principal gifts and designated Church savings over the long term, in order to provide earnings for future Church uses. It distinguishes this fund from "Restricted Endowment Gifts" that *are* subject to permanent restrictions under the California Probate Code.
  - b. The Endowment Fund is funded from Unrestricted Savings in an initial amount up to \$150,000.
  - c. The Principal Value of the Endowment Fund may be withdrawn by a two-thirds vote of the Congregation for specified reasons under catastrophic or extraordinary circumstances.
  - d. The Principal Value is protected by the retention of earnings sufficient to offset inflation.
  - e. Withdrawal of Earnings by the Board is subject to certain limitations and principles.
9. **Resolution IX: Adopts Investment and Management Standards and Practices for Endowment Fund Assets.**  
**\*[End of Voter Summary]\***

# Congregational Resolutions to Implement The Recommendations of the Committee on Money

## Preambles

[Introduction stating the History and Reasons for the Resolutions]

**Whereas** the Congregation of the Unitarian Universalist Community Church of Santa Monica ("Church") at its annual meeting on May 17, 2014, **as a condition of approval (amendment) of a budget with a \$72,000 deficit**, approved \$1000 for the formation of a special committee ("Committee on Money") charged to investigate, evaluate, and recommend to the Board of Directors ("Board") and the Congregation on several specific financial and accounting policies, procedures, and practices pertaining to the current and future uses of special (non-pledge) gifts and bequests, use of unrestricted and /or undesignated cash reserves for Church operational expenses, annual budget accounting and deficit financing, and the potential establishment of an endowment reserve fund; and

**Whereas** on October 8, 2014 the Nominating Committee of the Church selected and appointed the following church members and former member to serve on the Committee on Money: Ron Crane, Leslie Reuter (former), Vicky Foxworth, Ken Alexander and David Olson; the Church President, Patricia Wright, served as Board Liaison; the Committee appointed Steve White to act as Recording Secretary for the Committee; and

**Whereas** the Committee on Money prepared a written report to the Congregation for its preview at a Town Hall meeting on April 12, 2015 and thereafter presented its report to the Board on May 12, 2015 for review and comment, and then a summary of those findings and recommendations was presented for informational purposes to the Congregation at its annual business meeting on May 17, 2015, subject to further study by the Congregation, the Finance Committee and the Board; thereafter for action by the Board and Congregation regarding the finance and accounting recommendations in the report; and

**Whereas** the Finance Committee of the Church has studied, discussed, evaluated and endorsed the Report (Recommendations and Resolutions) of the Committee on Money; and

**Whereas** the Board discussed the Recommendations and Resolutions at their Board Retreat on September 13, 2015, and at the Board Meeting on November 10, 2015; and

**Whereas** the Board may decide to act on other recommendations of the Committee on Money as determined to be in the best interests of the Church at a future date; and

**Whereas** the Church acknowledges the late Drew Still, a member since 1966 (47 years) and the late Judy Federich, a member since 2000, for their bequests to the Church totaling \$874,761 received in 2013-2014, the balance now held in the Church's Unrestricted Savings account (see FAQs); and

**Whereas** the Church, by designating certain Reserve Accounts as suitable for long-term investments, will enable prudent investments in long-term assets with anticipated higher long-term returns than possible when limited to short-term investments (see FAQs); and

## Now Therefore, the Committee on Money

**Recommends the following Resolutions to the  
Congregation of the Unitarian Universalist Community Church of Santa  
Monica.**

## **RESOLUTION I: Resolved that the Congregation of the Church hereby adopts the following**

### **Church Financial and Accounting Principles and Practices:**

Establishes a set of general Church Financial and Accounting Principles and Practices to clarify and strengthen our current practices to better reflect accepted accounting practices for 501c(3) entities, such as our church. In order to promote prudent financial oversight, the following seven (7) principles and practices establish the framework for managing the financial affairs of UCCSM (the Church):

1. The Church shall keep complete, current, and accurate financial and related accounting books and records including computer records with adequate back up for short and long term record requirements. The Board should receive and review timely reports of the Church's financial condition and activities and should have a qualified, independent financial audit or review of these financial books and records annually in a manner appropriate to the size and scale of the operations of the Church.
2. Complete and accurate financial statements are essential for the Church to fulfill its legal responsibilities and for the Board of Directors and the Congregation to exercise appropriate oversight of the Church financial operations. If the Board does not have members with financial expertise, it should retain a qualified paid or volunteer accounting professional to establish or confirm the sufficiency of the Church financial record systems and statements.
3. The Church financial statements shall be prepared, audited and reviewed in accordance with generally accepted accounting principles (GAAP). If an audit is not legally required, an independent financial review offers a less expensive alternative that still provides the Board and the Congregation with some assurance of the sufficiency and accuracy of the financial records. Working with an independent accountant provides invaluable guidance.
4. The Church as a charitable organization should establish financial and accounting policies and procedures that ensure that the Church manages and invests its assets responsibly and in accordance with all legal requirements subject to the review and approval of the Board and the Congregation.
  - a. The Board shall review and approve the annual budget and shall monitor actual performance against the budget as approved by the Congregation. Sound financial management is among the most important responsibilities of the Board of Directors. The Board shall establish clear policies to protect church financial assets and ensure that no one person bears the sole responsibility for receiving, depositing, and spending its funds. The Board is responsible to review the financial and accounting policies, practices and procedures to ensure that the staff and volunteers adhere to the Board and Congregation approved policies and practices of the Church.
  - b. Day-to-day accounting and financial management should be the task of staff or where there is reduced staff, use of designated volunteers who have the necessary time and skills may be sufficient.
5. The Church annual budget should reflect the programs and activities the Church expects for the coming year and the necessary resources to raise or generate income to support those activities.
  - a. During the year, after careful review of regular financial reports that show both budgeted and actual revenue and expenditures, the Board should determine whether adjustments must be made in spending (e.g. reduction or increase in personnel or other direct costs or increases in expected revenue) to accommodate changes in income.
  - b. Financial reports should also show how the Church uses and accounts for any restrictions or other designation placed on funds gifted by donors or established by the Board or the Congregation.
6. Prudent financial oversight requires that the Board look beyond monthly or annual financial reports to consider how current financial performance of the Church compares with prior years (usually 5 to 10 years) and the forecast for the financial future for the next two years and beyond. If Church assets or income decline over a period of years, or if future revenue seems likely to change materially, the Board may need to take steps to achieve or maintain financial stability and revise the budget accordingly.
7. Whenever possible, the Church should generate enough income to maintain or create cash reserves for its future sustainability. When the Church has accumulated or saved sufficient reserves to allow for investments, the Board is responsible to establish policies that govern how the funds will be invested and what portion of the returns, if any, can be used for immediate operations or programs including community outreach endeavors. If independent outside investment managers are employed, they should perform their duties as fiduciaries (persons who have the power and obligation to act

for another). The Board (or a committee of the Board or both) should monitor the outside investment manager(s) regularly.

**RESOLUTION II - OPERATING ACCOUNT: Resolved that the Congregation of the Church hereby recognizes the necessity of an Operating Account** to provide liquidity for the ordinary financial operations of the Church and adopts Accounting Procedures to **maintain the balance** of the Operating Account by transfers from the Budget Deficit Account and other Reserve Accounts.

**A. Operating Account Definition and Purposes**

The purpose of the Operating Account is to provide an accounting and bank mechanism for the monthly financial transactions of the Church in order to maintain a balance sufficient to cover mismatches between the timing of income and expenses. Additionally, this account provides financial visibility of the balance of this account and any transactions required to maintain its authorized balance.

1. The Operating Account eliminates the present informal use of the “Unrestricted Savings” account for this purpose. A separate Operating Account assures that these funds are not considered part of Unrestricted Savings and provides that these funds are not available for other financial purposes.
2. All pledge and other regular operating income revenue are credited to this account and all payroll checks and other regular and recurring expenses are drawn on this account as administered according to established accounting procedures.

**B. The Accounting Allocation for this purpose is \$30,000.**

1. The initial accounting allocation to the Operating Account is \$30,000 from the Unrestricted Savings account.
2. \$30,000 is the level that Church Administration considers adequate for liquidity, covering timing differences between expenses and income, based on activity in recent years.
3. *This operating account should correspond to the Church’s bank checking account.*

**C. Accounting Procedures for the Operating Account to maintain a prudent Balance:**

1. During a fiscal year for which a deficit has been budgeted, or other fiscal year in which a deficit is being incurred, periodic transfers from the Deficit Reserve Fund established for that fiscal year, if any, will be made to the Operating Account upon recommendation of the Church Administrator and approval of the Treasurer and/or the Finance Committee up to the budget limit of the Deficit Reserve Account.
2. If an operating deficit requires funds in excess of the budgeted Deficit Reserve Fund, the Board may authorize the transfer of funds from the Contingency Reserve Fund and other Reserve Funds or other budget funds within the limits of the Church Bylaws, resolutions and policies.

**RESOLUTION III-a: Catastrophe Reserve Account: Resolved that the Congregation of the Church hereby establishes a Catastrophe Reserve Account:**

- A. The purpose of the Catastrophe Reserve Account is to accumulate and provide funds toward the contingency of paying for expenses up to the deductible for the Church's Earthquake Insurance policy and other insurance policies, such as fire and general liability.
- B. These funds are available for long-term investment.
- C. The initial accounting allocation of funds from Unrestricted Savings is \$150,000. 25% of future Undesignated Bequests and large (\$5,000 or more) undesignated non-pledge gifts will be allocated to this Reserve.
- D. Note: The Church must pay for expenses less than or up to the amount of the deductible before any payments will be made by the insurance carrier. The deductible on that Policy is set at 25% (\$652,000) of the current fair market value of the Sanctuary/ Office/Forbes Hall facilities.

**RESOLUTION III-b: Capital/Building Reserve Account: Resolved that the Congregation of the Church hereby establishes a Capital/Building Reserve Account:**

- A. The purpose of the Capital/Building Reserve Account is to accumulate and provide funds toward the contingency of urgent large building *and facilities* repairs and upgrades that emerge after annual budget approval and allow timely exceptional repairs as needed. See FAQs for examples.
- B. These funds are available for short-term investment.
- C. The initial accounting allocation of funds from Unrestricted Savings is \$50,000. 20% of future Undesignated Bequests and large (\$5,000 or more) undesignated non-pledge gifts will be allocated to this Reserve.
- D. Routine maintenance costs are not covered by this fund and are funded from the annual Facilities Maintenance Budget.
- E. This Reserve Account incorporates and replaces the current Building Fund, which has a balance of about \$5,000. This account is not intended to finance major construction projects, which require capital campaigns.

**RESOLUTION III-c: Contingency Reserve Account: Resolved that the Congregation of the Church hereby establishes a Contingency Reserve Account:**

- A. The purpose of the Contingency Reserve Account is to provide funds for the Board to use for large, unexpected expenses that were not known when the annual budget was approved, *in amounts above budgeted contingency funds.*
- B. The Contingency Reserve Account is intended only to supplement, not replace, annual budgeted contingency funds.
- C. These funds are available for short-term investment.
- D. The initial accounting allocation of funds from Unrestricted Savings is \$30,000. 15% of future Undesignated Bequests and large (\$5,000 or more) undesignated non-pledge gifts will be allocated to this Reserve.
- E. As funds are spent, periodic additions from operating income will need to be budgeted to replenish the account in the absence of timely bequests or gifts *or until adequate annual contingency funds can be budgeted.*

**[Note:** two of the reserve funds proposed in April, 2015, have become obsolete:

- The funds proposed for the 2014-15 Deficit Reserve covered the actual \$60,000 deficit on 6/30/2015, and
- The Sanctuary Lighting Project is expected to be completed by the end of 2015, and is now a balance sheet line item.]

**[RESOLUTION III-d: Deficit Reserve Fund for the approved 2015-2016 Budget]**

(now a balance sheet line item)

**RESOLUTION III-e: Deficit Reserve Fund for the next fiscal year Budget, 2016-2017:**

**Resolved that the Congregation of the Church hereby establishes a** Deficit Reserve Fund for the next fiscal year Budget, 2016-2017:

Note: unless the Church acts to increase revenue or reduce expenses before the budget for the next fiscal year is drafted in March 2016 and approved in May 2016, a similar operating deficit is anticipated.

A. The purpose of the Deficit Reserve Fund for the next fiscal year Budget, 2016-2017, is to anticipate and provide funds for the contingency that the next budget may include an operating deficit similar in size to this year's budgeted deficit (\$53,000).

B. These funds are available for short-term investment.

C. The initial accounting allocation of funds from Unrestricted Savings is \$50,000. No future Undesignated Bequests and large (\$5,000 or more) undesignated non-pledge gifts will be allocated to this Reserve.

## **RESOLUTION IV: Resolved that the Congregation of the Church hereby adopts the following**

### **Standards and Practices for Reserve Accounts:**

The establishment, funding, use and account reporting of Reserve Accounts will be governed by these Standards and Practices for Reserve Accounts. *[1/12/2016: Wording clarifications made to Resolution IV, items 4, 5 and 6]*

1. **Purpose.** Subject to generally accepted accounting practices (GAAP), Reserve Accounts as established by the authority of the Board or Congregation have two purposes: (i) provide funds in prudent anticipation of known long-term financial contingencies and (ii) provide funds for budgeted, approved or anticipated expenses.
  - a. These Reserve Accounts provide financial reporting accountability for funds allocated for these purposes and distinguish these funds from the unrestricted, undesignated, and unallocated funds of the Church.
  - b. Additionally, these accounts recognize existing financial commitments of the Church for various purposes as funds which are then no longer available for other uses until the Board or Congregation determines otherwise.
2. **Establishing and Funding New Reserve Accounts.** New Reserve Accounts may be established for any identified and defined financial contingency or any number of contingencies or for any financially significant (initially, \$5,000 or more) allocation or commitment of funds for specific future non-budgeted expenses. The purpose of each reserve account, including whether that purpose makes it suitable for long-term investments, is identified when established by the Board or by the Congregation. Upon establishment of a reserve account to provide for a financial contingency or identified expense, the Board or Congregation should approve a funding transfer to the new Reserve Account from the Budgeted Contingency funds or the Contingency Reserve account unless another source account is specified.
3. **Ongoing Funding of Established Reserve Accounts.** Reserve Accounts that are not fully funded when established or that become not fully funded for any reason, may be built up or replenished as follows:
  - a. For Reserve Accounts for which a funding goal and future allocation percentages have been established, funds from newly received unrestricted bequests and undesignated non-pledge gifts will be transferred periodically to each Reserve Account according to the percentage allocation schedule to attain the approved funding goal for each Reserve Account.

Because bequests and non-pledge gifts are unpredictable as to amount and timing, these potential revenues cannot be the only source of future funding of Reserve Accounts for contingencies or identified expenses. Budget allocations by each annual operating budget or net savings from operating income are the sources of funds for Reserve Accounts.
  - b. Donors may specify some bequests and non-pledge gifts, as accepted by the Church and if not otherwise restricted or designated, as donations to the Endowment Fund or other selected Reserve Accounts, in addition to other donations to any restricted or designated account.
4. **Use of Reserve Accounts.** Except for Restricted Endowment Gifts, the funds subject to a Reserve Account must be used solely for the purposes specified at the time it is established, unless the Congregation authorizes alternative uses at some future time based on then current facts and financial circumstances.
5. **Transfers between Reserve Accounts.** Transfers between Reserve Accounts must be authorized by action of the Congregation. The Finance Committee will periodically review the purposes, use, sufficiency and funding goals of each Reserve Account and will report any proposed transfers and/or adjustments to the Board and the Congregation for approval and authorization as necessary.
6. **Withdrawals from Reserve Accounts.** The Board may use funds from Reserve Accounts for their stated purposes. Any withdrawals of funds from Reserve Accounts, except for the Contingency Reserve, or Transfers to the Operating Account from any Reserve Account, except for the Contingency Reserve, for any purpose other than the designated purpose must be authorized by the Congregation [See Resolution III-c. A. - Contingency Reserve].
7. **Reserve Account Activity and Balances Accounting Reports.** Each addition, transfer, withdrawal or other transaction or activity regarding the fund balance of each Reserve Account will be identified, recorded and financially reported along with the other income and expenses of the Church.
  - a) Reports should be prepared to show current month activity, fiscal year-to-date activity and prior fiscal year activity.
  - b) Reports should be prepared to show recent year-end balances of each Reserve Account.

**[formerly RESOLUTION V:]**

**SUMMARY: Initial Funding Allocation Schedule for five New Reserve Accounts:**

**Allocation of Unrestricted Savings as of 12/31/15**

(Amounts in Thousands, approximate)

	<b>COLUMN A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
	<b>ACCOUNTS</b>	Balance Current Amount 12/31/15	<b>Allocation from Un-restricted Funds</b>	Balance Amount After Allocation	Goal
8	Deficit Reserve 2015-16 Budget, approved by Congregation	53		53	53
2	<b>OPERATING ACCOUNT (“Checking”) - New, Existing</b>	30		30	30
1	<b>UNRESTRICTED SAVINGS ACCOUNT “URS”</b>	430	<b>-430</b>	0	0
	(12/31/15 Balance Sheet \$463K for URS including Operating funds)				
	<b>RESERVE ACCOUNTS - CONTINGENCIES - New:</b>				
3	Catastrophe-Insurance Deductible Reserve Account	0	<b>150</b>	150	750
4	Capital/Building Reserve Acct-Urgent Major Repairs	5	<b>50</b>	55	250
5	Contingency Reserve Account	0	<b>30</b>	30	50
	<b>RESERVE ACCOUNTS – APPROVED PURPOSES - New:</b>				
6	Sanctuary Electrical & Sound Project - near-term completion, balance now a line item				
7	Deficit Reserve 2014-15 – closed				
9	Deficit Reserve 2016-17 Budget (anticipated)	0	<b>50</b>	50	50
10	<b>ENDOWMENT FUND RESERVE ACCOUNT - New</b>	0	<b>150</b>	150	2,000
	<i>Subtotals and Net Change</i>	518	0	518	

**NOTES:**

Line 1: The Unrestricted Savings account was for funds which have not been allocated or designated for specific reserves or purposes by the Church or any donor. *Previous uses have been provided for by other specific accounts.*

Line 2: The Operating Account provides liquidity for all church checks for payroll and other short-term periodic expenses.

Line 3: The Catastrophe Reserve begins to provide for paying expenses less than and up to the \$652,000 deductible under our Earthquake Insurance and the deductibles on other insurances, such as fire and liability.

Line 4: The Capital/Building Reserve provides for urgent major building repairs and upgrades requiring funds in excess of the annual building maintenance budget. See FAQs for examples.

Line 5: The Contingency Reserve provides for large unexpected expense *in excess of budgeted contingency amounts*, after approval of the annual budget.

\*Line 6: The Sanctuary Electrical and Sound Project, with an original Budget of \$80,000, is expected to be completed by the end of 2015. The 10/31/15 budget balance of \$37,324 is now a line item on the Balance Sheet, rather than a reserve account.

\* Line 7: The Deficit Reserve 2014-15 was a one-time fund to cover the projected deficit in the fiscal 2014-2015 budget and was closed June 30, 2015 by offsetting the \$60,000 actual deficit.

Line 8: The Deficit Reserve 2015-16 is a one-time fund to cover the budgeted deficit in the current fiscal 2015-2016 budget.

Line 9: Deficit Reserve 2016-17 provides funds to cover potential deficits in the fiscal 2016-2017 annual budget.

Line 10: The Endowment Fund is an account(s) to provide long-term income and financial stability for the Church. This account has decreased from the original \$200,000.



**[formerly RESOLUTION VI]**

**SUMMARY: Percentage Allocation Schedule of Future Undesignated Bequests and large (>=\$5,000) Non-Pledge Gifts:**

(Amounts in Thousands, approximate)

	<b>COLUMN A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>
	<b>ACCOUNTS</b>			Balance Amount After Proposed Allocation	Goal	<b>Allocation for Future Unrestricted, Undesignated Gifts</b>
1	<b>UNRESTRICTED SAVINGS ACCOUNT (10/31/15) - Existing</b>			0	0	<b>0%</b>
	<b>RESERVE ACCOUNTS - CONTINGENCIES - New:</b>					
3	Catastrophe-Insurance Deductible- Reserve Account			150	750	<b>30%</b>
4	Capital/Building Reserve Acct-Urgent Major Repairs			55	250	<b>20%</b>
5	Contingency Reserve Account			30	50	<b>15%</b>
10	<b>ENDOWMENT FUND RESERVE ACCOUNT</b>			150	2,000	<b>35%</b>
	<i>Subtotals</i>					<b>100%</b>

NOTES:

Line 1: The Unrestricted Savings account is for funds which have not been allocated or designated for specific reserves or purposes by the Church or any donor.

Line 3: The Catastrophe Reserve account begins to provide for paying expenses up to the \$652,000 deductible under our Earthquake Insurance.

Line 4: The Capital/Building Reserve account provides for urgent major building repairs and upgrades requiring funds in excess of the annual building maintenance budget.

Line 5: The Contingency Reserve account provides for large unexpected expenses in excess of budgeted contingency funds, after approval of the annual budget.

Line 10: The Endowment Fund is an account(s) to provide long-term income and financial stability for the Church.

## [RESOLUTION VII: Two types of Endowment Funds – incorporated into Resolution VIII]

### RESOLUTION VIII: Resolved that the Congregation of the Church hereby authorizes and establishes a Church Endowment Fund:

1. **The Church's Endowment Fund shall conform to the type** of an Endowment Fund Reserve Account which is not subject to the California Probate Code and is therefore not permanently restricted:

Endowment Fund Reserve Account means any reserve account in which the principal and income of the underlying assets is maintained as part of the long-term financial reserves of the Church for its use or in accordance with the conditions, purposes, and restrictions, if any, imposed at the time the Endowment Fund account is created by the Board of Directors and the Congregation for use by the Church. These funds are *not* subject to the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") (California Probate Code Sections 18501-18510).

2. **The Church has and may have future Restricted Endowment Funds**, meaning a separate endowment account within the meaning of the California Uniform Prudent Management of Institutional Funds Act (UPMIFA) (Probate Code Section 18501-18510) that may from time to time be established by the Board of Directors in order to accept gifts subject to the terms of a written donor gift instrument that is not wholly expendable on a current basis, as provided in the gift instrument or as otherwise designated or restricted by the donor, all of which is acceptable to the Church at the time of gift. The Church is not obligated to accept a gift of this nature unless the Board of Directors expressly accepts the terms of such a gift or otherwise negotiates terms and conditions of such a gift that are acceptable to the Church. Such endowment funds *are* subject to the provisions of UPMIFA and are considered permanently restricted.

3. **The Church's Endowment Fund shall be funded in an initial amount up to \$150,000** from the Unrestricted Savings account.

4. **35% of future Undesignated Bequests and large (>=\$5,000) undesignated non-pledge gifts** will be allocated to this Reserve.

5. **The Principal Value of the Church's Endowment Fund shall be protected** according to the following guidelines:

a. **The principal of the Endowment Fund is intended to remain intact** in order to provide long-term earnings for the use of the Church.

b. The buying power of the Endowment Fund shall be maintained by the retention of such earnings as are required to reflect the rate of inflation, as defined by U.S. government inflation indexes, such as the Consumer Price Index.

c. **The principal of the Endowment Fund shall not be withdrawn except in extraordinary circumstances:**

i. In the event of extraordinary circumstances or extraordinary financial events or catastrophic costs the Congregation may authorize the expenditure of the principal of the Endowment Fund(s) in whole or in part.

ii. **Congregational authorization requires a two-thirds majority** of the votes cast (including proxies and absentee ballots) at a Church business meeting called in accordance with the Church's Bylaws.

6. **Withdrawal of Earnings by the Board shall be subject to the following limitations and principles:**

a. Limits on Withdrawals of Earnings for Operating Expenses. No more than fifty percent (50%) of the annual earnings (dividends and interest), if any, may be withdrawn from the Endowment Fund accounts by the Board for operating or any other expenses of the Church without the authorization of the Congregation.

b. Limits on Withdrawals of Increase in Principal. No more than ten percent (10%) of the prior fiscal year's increase in principal value, if any, in excess of inflation, may be withdrawn from the Endowment Fund accounts by the Board of Directors for operating or other expenses of the Church without the authorization of the Congregation.

## **RESOLUTION IX: Resolved that the Congregation of the Church hereby adopts the following**

### **Endowment Fund Investment and Management Standards and Practices:**

The Investment and management of Endowment Fund Account(s) shall be governed by these Standards and Practices:

1. Purpose. The purpose of the Endowment Fund Reserve Account(s) is to accumulate funds for long-term financial support and sustainability, with limited access to earnings for operating expenses or community outreach programs, as well as access to principal in the event of a catastrophe.
2. Authorized Investments. No funds shall be deposited or invested except in authorized investments. Authorized investments are those that are made in accordance with applicable federal and state laws (excluding the Uniform Prudent Management of Institutional Funds Act) and with the Articles of Incorporation and Bylaws of the Unitarian Universalist Community Church of Santa Monica (the "Church") and this policy.
3. Approvals of Investments. All accounts, instruments, and other documentation about these investments shall be subject to the recommendation and approval of the Investment Committee of the Church and by the Board of Directors of the Church, subject to the annual review of the Congregation following approval by the Board. Church members and friends may make special gifts or bequests to the Endowment Fund subject to this Church policy. The Congregation may provide that the annual operating budget include an investment of current Church income into Endowment Fund accounts.
4. Return on Investments. Endowment funds should be invested to seek the highest level of return that is consistent with preservation of the purchasing power of the principal and accumulated dividends and interest.
  - a. Endowment funds should be invested in assets that provide for growth in principal, although carrying a risk of reduction in market value due to economic conditions, with periodic distributions that may be withdrawn for the support of the Church.
  - b. No endowment funds shall be invested in individual stocks or bonds or any assets that would yield "unrelated business income" within the meaning of the U.S. Internal Revenue Code.
  - c. Subject to reasonable investment judgment, the endowment fund investments should respect and reflect Unitarian Universalist values.
5. Investment Terms and Conditions. Endowment Fund investments are subject to the following terms and conditions:
  - a. Minimal costs. Investment costs (e.g. fees, commissions, and other transaction costs) should be reasonable, about 1%.
  - b. No Encumbrances. The Church shall not borrow, loan, pledge as collateral or otherwise encumber the assets of any Endowment Fund(s) unless approved by the Congregation.

Note: The provisions of the previous item #6 have been moved to Resolution VIII.

6. Professional management. Funds should be invested with professional managers who have good reputations and sound credentials and act as fiduciaries. The Board and Congregation recognize the Unitarian Universalist Common Endowment Fund (UUCEF) as a suitable professionally-managed, socially-responsible and widely-diversified investment fund eligible for endowment fund investments.
7. Accounting Records. The Treasurer shall establish and maintain accounting books and records for all endowment funds and related financial transactions for these investments.
8. Review and Report. The Investment Committee shall meet at least quarterly to review and oversee all investments to assure the safety, suitability and performance of the investments and of any financial advisors.
  - a. The Investment Committee shall report to the Board of Directors from time to time as requested by the Board.
  - b. The Board of Directors shall report annually to the Congregation about the status and performance of all endowment funds and any withdrawals authorized by the Board or the Congregation.

[End of Resolutions]

## Attachment: FREQUENTLY ASKED QUESTIONS (“FAQ”s)

### QUESTIONS ANSWERED BELOW:

1. What if we change our minds six months or a year from now, are we stuck?
2. What are the Church’s Existing Reserve Accounts?
3. Why do we need both an Emergency Reserve Fund and a Catastrophe Reserve Fund?
4. Why is the Cottage not covered by our Earthquake Insurance Policy?
5. What additional income could reasonably be expected from long-term investments?
6. What has been done with Drew and Judy’s bequests totaling \$874,761 received in 2013-2014?
7. What are examples of “major urgent large building repairs and upgrades” as in Resolution III?
8. Why has the amount of the Deficit Reserve Account for fiscal 2016-2017 been increased to \$50,000?
9. *What does “reserve account” mean? [new FAQ, transferred from former Resolution III]*

### ANSWERS TO QUESTIONS ABOVE:

1. **FAQ: What if we change our minds six months or a year from now, are we stuck? Answer:**
  - a. If the Board establishes Reserve Funds by a majority vote, a majority of the Board at any time can withdraw, transfer or dissolve any such Reserves.
  - b. If the Congregation establishes Reserve Funds by a majority vote or an Endowment Fund by a two-thirds vote, the Congregation can withdraw, transfer or dissolve any such Funds by an equivalent vote, if so specified.
  - c. If the Congregation incorporates any funds and their rules into the Bylaws of the Church, the rules for changing Bylaws would govern – such as giving advance congregational notice and requiring a two-thirds vote at a congregational meeting.
  - d. Overall, the same procedures and voting levels that are required to establish Funds at various levels of protection also apply to the procedures and vote levels to change or dissolve them.
2. **FAQ: What are the Church’s Existing Reserve Accounts? Answer:**

The Church has previously established Reserve Accounts to provide for specific recognized contingencies and commitments. The largest Reserve Accounts are the Minister’s Equity Sharing Reserve account and the Emergency Reserve account.

  - a. The Minister’s Equity Sharing Reserve account (\$200,000) provides funds in the event that the Minister buys a home within the provisions of the Ministerial Contract and the Church thereupon provides funds for an equity share in the property purchased and in the proceeds from the future sale of that property. This account includes the church’s equity share in the proceeds from the sale of the appreciated property of a prior minister.
  - b. The Emergency Reserve account (\$150,000) provides contingency operating funds during income disruptions following major emergencies and is specified in existing Policies of the Church to be maintained at 25% (three months’ value) of the operating budget income of the Church. The Emergency Reserve Account has been accumulated by annual savings from the Church’s operating income.
  - c. There are two major Restricted Endowments – the Pipes Lecture Endowment of \$31,542 and the Will Wright Pulpit Speaker Endowment of \$10,558, plus the restricted Women’s Alliance Fund of \$2.716.

- d. Other designated programs and activities (grouped by AAHS, Administration, Faith In Action, Ministry, Music and Religious Education) and funded by budget allocations, specific fundraising and/or designated donations plus other general liabilities can be found on the Church's Statements of Financial Position/Balance Sheets, submitted monthly to the Board, which are available on our website.

**3. FAQ: Why do we need both an Emergency Reserve Fund and a Catastrophe Reserve Fund? Answer:**

- a. The Emergency Reserve Fund provides 3-months' operating funds during income disruptions following major emergencies.
- b. The Catastrophe Reserve fund pays for building repairs up to the deductible amount required by our insurances.

**4. FAQ: Why is the Cottage not covered by our Earthquake Insurance Policy? Answer:**

- a. The Cottage was not covered by previous earthquake policies and so was not "grandfathered" into the current policy.
- b. New earthquake coverage for non-residential buildings is not offered or available from any insurance carrier, as the Church's most recent review of insurance concluded.

**5. FAQ: What additional income could reasonably be expected from long-term investments? Answer:**

- a. The Church's funds are invested in fixed-return savings accounts and Certificates of Deposit, with an estimated average return of less than 0.5%. The Investment Committee disbanded a few years ago (2008) because there was not enough money to invest.
- b. **The UUA Common Endowment Fund ("UUCEF")** is a professionally-managed, widely diversified, socially-conscious, long-term investment fund which has reported the following net returns: 3 years – 7.6%, 5 years – 8.4%, 7 years – 5.5%, and 10 years – 5.4%. (The average inflation rate (CPI) for the ten-year period from 2005 to 2014 was 2.28%.) Note that the current year-to-date return is close to zero, due to general economic conditions.
- c. Note: Withdrawals of \$10,000 or less from the UUCEF require at least 10-days' notice before the last business day of the month; withdrawals of \$100,000 or more from the UUCEF require at least 30-days' notice. The church may attach other restrictions on withdrawals when an account is established. Without other restrictions, such as Endowment rules, set when the account is established, funds can be withdrawn or transferred to an UU Endowment Fund account with the same authorization as required for our CD's.
- d. EXAMPLE: If about one-half of our cash-equivalent assets, \$500,000, were invested in the UUCEF and yielded 5% (less than the ten-year average return), on average over the long run, that would generate \$25,000 per year or \$2,083.33 per month. **An average of \$25,000 per year would make a huge dent in our ongoing annual deficits.**

**6. FAQ: What has been done with Drew and Judy's bequests totaling \$874,761 received in 2013-2014? Answer:**

- a. Judy Federick made no specific designations or specifications.
- b. **\$280,000+** has been spent or approved for Building Improvements.
  - ii. Drew Still specified that \$200,000 of his bequest be used for capital improvements. That \$200,000 was spent on facilities renovations in 2013-2014. No use or purpose for other amounts was specified.
  - iii. \$80,000 was approved and committed to the Sanctuary Lighting Project from the legacy money remaining in Unrestricted Savings as of the Congregational Meeting in May, 2014.
- c. **\$113,000** has been spent or reserved to cover Operating Expenses in excess of Operating Income (Deficits) thru 6/30/16. (**\$163,000** will be the bequest amount spent on Deficits if another \$50,000 is used for a possible 2016-17 deficit.)
  - i. \$60,000 was spent to cover the actual Operating Deficit for the 2014-15 fiscal year ending 6/30/2015.

- ii. \$53,000 (\$52,616) has been reserved to cover the budgeted Operating Deficit for the 2015-16 fiscal year ending 6/30/2016.
- d. \$481,761 is the remainder of the bequests after the expenses above (*excluding the proposed \$50,000 2016-17 Deficit Reserve*). \$463,226 is the 10/31/2015 balance in Unrestricted Savings, a difference of \$18,535.
- e. Note: Information is not readily available whether amounts were added to Unrestricted Savings from any other sources or what earnings on investment of these funds have been received or to what account those earnings were credited.

**7. FAQ: What are examples of the “major urgent large building repairs and upgrades” referred to in Resolution III? Answer:**

- a. Wind damage, such as a tree falling and damaging the roof.
- b. Water pipes bursting on the second floor of Forbes Hall, causing wall and ceiling damage.
- c. Flood damage from a broken water main under the street.

**8. FAQ: Why has the amount of the Deficit Reserve Account for fiscal 2016-2017 been increased to \$50,000 (from \$20,000)? Answer:**

- a. The purpose of this account is to anticipate and provide funds for the contingency that this future budget may include an operating deficit. Unless the Church acts to increase revenue or reduce expenses before the budget for that fiscal year is drafted in March 2016 and approved in May 2016, there will be an operating deficit similar in size to this year’s deficit.
- b. Although the Congregation hopes for progress toward the goal of a balanced or surplus budget for future years, the church’s financial reports show that no significant reduction of expenses or increase in income has been achieved to date.
- c. Therefore, the Deficit Reserve Fund for the 2016-2017 Budget is increased from \$20,000 to \$50,000, which is about the same amount as the Congregation approved for the current 2015-16 fiscal year’s budget.

**9. FAQ: What does “Reserve Account” mean? Answer:**

- a. The Church has existing Reserve Accounts which provide for recognized contingencies and obligations. These additional Reserve Accounts are each established for an identified ongoing financial contingency or existing commitment. See FAQ#2 for more information on existing Reserve Accounts.
- b. The new Reserve Accounts are called “Reserve Accounts” to distinguish them from existing Restricted Fund Accounts, Designated Fund Accounts, and other Accounts for funds held on behalf of Church programs and activities, and other specified liability accounts.
- c. The name, definition, purpose and suitability for long-term investment of each new Reserve Account fund governs the use of that account and documents the reasons for establishing that fund.

[End of Frequently Asked Questions]

**Attachment to Resolutions:  
November 2015 Statement of Financial Position and Funds/Balance Sheet**

<b>Cash and Equivalents</b>		<b>Liabilities and Equity</b>	<b>End of 2014-15 Fiscal</b>	<b>November 2015</b>
Bank of America Checking	1,916	<b>Liabilities</b>	2,307	2,747
Bank of America Savings	38,694			
		<b><u>Reserves</u></b>		
Self Help Credit Union CD	251,798	Emergency Reserve	150,406	150,406
ML Preferred Deposit	360,107	Minister Equity Sharing Reserve	199,528	199,528
ML CD	124,902	AAHS Fund	271	281
ML Bank Deposit	178,425	<b>Unrestricted Savings (URS)</b>	<b>640,933</b>	<b>463,226</b>
		<b><u>Approved Expenditures from URS**</u></b>		
		Audio Video Project		876
		Compassionate Communications Workshop		
		Sanctuary Lighting Project (balance)		37,324
		2015-16 Fiscal Year Estimated Deficit		52,616
		<b>Garden of Eternity</b>		2,175
		<b>Building Fund</b>	4,719	2,636
Petty Cash	150	<b><u>Administration Fund</u></b>		
		Book Store Fund	448	459
		DeBennville Fund	2,551	1,734
		Project Dazzle	3,455	3,455
		Stewardship Fund	-	
		<b><u>FIA Funds</u></b>		
		Churches/Incarcerated Students Fund	185	-
		Faith in Action Commission Fund	3,209	2,900
		Hunger Fund	1,507	1,670
		Interweave Fund	-	-
		<b><u>Ministry Funds</u></b>		
		Discretionary Fund	380	282
		Sabbatical Expense Fund***	22,400	17,600
Total Cash and Equivalents	955,992	<b>Music Funds</b>	12,309	394
		<b><u>RE Funds</u></b>		
		Guest at Your Table Fund	63	63
		RE Department Fund	2,488	4,630
		Youth Trip UU UNO Seminar Fund	6,820	3,653
		<b><i>YTD change (net income)</i></b>	<b><i>(59,818)</i></b>	<b><i>(36,112)</i></b>
		<b><u>Restricted Funds</u></b>		
		Women's Alliance Fund	2,716	2,722
		Total Pipes Lecture Endowment	31,542	31,519
		Will Wright Pulpit Speaker Endowment	9,708	9,208
<b>Total Assets</b>	<b>955,992</b>	<b>Total Liabilities and Net Assets</b>	<b>1,038,12</b>	<b>955,992</b>

\*\* In previous reports, these amounts were included in the Unrestricted Savings Total...  
[Other footnotes not shown here]

**Attachment to Resolutions:  
December 2015 Statement of Financial Position and Funds/Balance Sheet**

Cash and Equivalents		Liabilities and Equity	End of 2014-15 Fiscal Year	December 2015
Bank of America Checking*	(2,548)	<b>Liabilities</b>	2,307	2,741
Bank of America Savings	36,696			
		<b>Reserves</b>		
Self Help Credit Union CD	251,798	Emergency Reserve	150,406	150,406
ML Preferred Deposit	363,623	Minister Equity Sharing Reserve	199,528	199,528
ML CD	124,902	AAHS Fund	271	281
ML Bank Deposit	178,425	<b>Unrestricted Savings (URS)</b>	<b>640,933</b>	<b>463,226</b>
		<b>Approved Expenditures from URS**</b>		
		Audio Video Project		876
		Compassionate Communications Workshop		-
		Sanctuary Lighting Project (balance)		35,964
		2015-16 Fiscal Year Estimated Deficit		52,616
		<b>Garden of Eternity</b>		300
		<b>Building Fund</b>	4,719	2,636
Petty Cash	150	<b>Administration Fund</b>		
		Book Store Fund	448	463
		DeBennville Fund	2,551	1,734
		Project Dazzle	3,455	3,455
		Stewardship Fund	-	-
		<b>FIA Funds</b>		
		Churches/Incarcerated Students Fund	185	-
		Faith in Action Commission Fund	3,209	3,000
		Hunger Fund	1,507	1,307
		Interweave Fund	-	-
		<b>Ministry Funds</b>		
		Discretionary Fund	380	82
		Sabbatical Expense Fund	22,400	13,123
Total Cash and Equivalents	955,046	<b>Music Funds</b>	12,309	661
		<b>RE Funds</b>		
		Guest at Your Table Fund	63	63
		RE Department Fund	2,488	3,201
		Youth Trip UU UNO Seminar Fund	6,820	3,653
		<b>YTD change (net income)</b>	<b>(59,818)</b>	<b>(25,717)</b>
		<b>Restricted Funds</b>		
		Women's Alliance Fund	2,716	2,720
		Total Pipes Lecture Endowment	31,542	29,519
		Will Wright Pulpit Speaker Endowment	9,708	9,208
<b>Total Assets</b>	<b>955,046</b>	<b>Total Liabilities and Net Assets</b>	<b>1,038,127</b>	<b>955,046</b>

\*\* In previous reports, these amounts were included in the Unrestricted Savings Total...  
[Other footnotes not shown here]