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Managing Your Congregation's Money



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UUA Financial Advisor website:
<http://www.uua.org/TRUS/financial/reports.html>



Topics

- The climate has changed
- Budget development and management
- Endowment management
- Preventing loss
- Best practices
- Lively discussion!

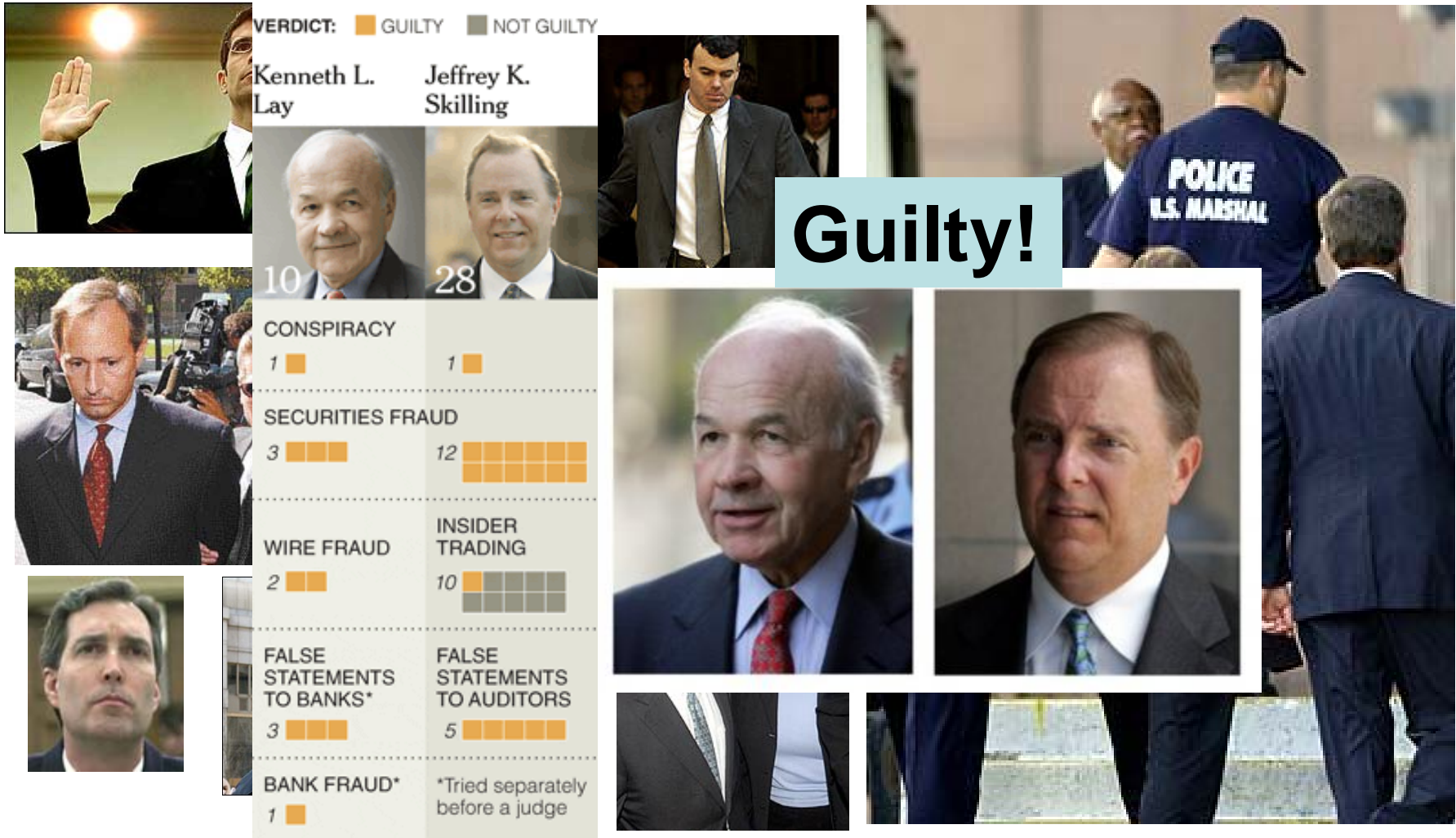


The climate has changed

- Corporate and NFP scandals
- Responses by government, industry groups, and accounting profession (AICPA)

The effects of corporate scandals: People are going to jail

The Counts





The church is not immune

- Treasurer defrauds National Episcopal Church of \$2.2M (1995)
- Catholic priest commits \$1M fraud over five years at St. Bede the Venerable Catholic Church (2004)
- Pastor of Morning Star Missionary Baptist church embezzles \$0.5M (2004)
- Volunteer financial secretary steals \$140K from Second Congregational Church in Rockford IL (2004)
- See “Insiders Steal Big from Unsuspecting Churches” (*Christian Century*, March 8, 2005)



Some not-for-profit scandals, so far, in 2006.....



- U. of Southern Fla. discovers \$275K in misplaced checks
- Former treasurer of Orthodox Church of America says millions misappropriated
- Southern Baptist leader resigns amid accusations of no-bid contracts to friend
- Audit finds U. of Cal. executive compensation improperly awarded
- CFO of United Way of Washington resigns over inflated fund raising and other bad fiscal practices
- Former pres. of Morris Brown College pleads guilty to embezzlement
- Head of Minneapolis nonprofit resigns over cheating beneficiaries
- Cleveland Clinic establishes conflict of interest policy after links to industry exposed
- Former head of Arizona Student Assoc. accused of embezzlement
- Cardiovascular Research Foundation's accountant pleads guilty to embezzlement
- National Center for Employment of the Disabled raided by Federal agents over fraudulent use of Federal funds



Responses to changed climate

- Government:
 - Federal government: focus on tax exemption (political activity, for instance)
 - State government: focus on protection of assets. 8 states have passed laws; 27 are considering laws
- Not-for-Profit Leadership:
 - Independent Sector, Moody's, NACUBO, Panel on the Nonprofit Sector
- AICPA
 - Considering lower threshold for reportable condition, material weakness, and going concern opinions



Budget development & management

- Congregational involvement
- Multi-year budget forecasts
- Emphasis on policy changes: what will be different next year?
- Periodic reporting of budget variances
- Capital budgeting and planning for preventive maintenance



Endowment policy

- Governance
- Spending policy and goals for return
- Asset allocation policies
- Endowment management
- Socially responsible investing
- Reporting
- UUA GIF



Endowment: governance

- Governance of investment committee
 - Appointed or elected
 - Specified terms for committee members
 - Term limits
 - Monthly or quarterly meetings, open to all
 - Annual calendar
 - Advance agendas with all action proposals
 - Conflict of interest provisions
 - Written policies



Endowment: spending policy

- Endowment return vs spending

Endowment Spending Rate (5%)

+ Inflation (3.5%)

= Net Endowment Return (8.5%)

- Spending rate set by congregation's Board of Trustees



Endowment: asset allocation

- Asset allocation policies: risk vs. return
 - Broad diversification among asset classes
 - Fixed income vs equities
 - International vs domestic
 - “Alternative” or “non-correlated” assets
 - Mutual funds vs individual stocks
- Periodic review and rebalancing
 - Quarterly or semi-annually



Endowment: management

- Professional endowment management
 - Committee sets allocation policy
 - Management alternatives
 - Committee selects one or more managers
 - Committee selects mutual funds
 - Committee selects individual securities
- Policy concerning donated securities



Endowment: SRI

- Socially responsible investing
 - Wide range of SRI mutual funds
 - Not available in all asset classes
 - Not always fully in accord with UU values
 - Individual stock screening very time-consuming
 - Shareholder advocacy and proxy voting
 - Community investing: UUA matching funds



Endowment: reporting

- Reporting of investment policies and endowment results
 - Report monthly or quarterly to board; annually to congregation
 - Compare to established comparison benchmarks, including UUA GIF
 - Report on use of restricted endowment funds
 - Annual review by accountant



Endowment: UUA GIF

- UUA General Investment Fund
 - Broad asset allocation set by UUA Investment Committee
 - Management by professional investment firms
 - Progress on SRI implementation
 - Shareholder advocacy and proxy voting
 - Community investing: 1% of GIF
 - Saves scarce congregational volunteer resources for other uses



Preventing loss

- Internal control essentials
- Asset protection
- Cash management
- Conflict of interest policies & safeguards
- Insurance

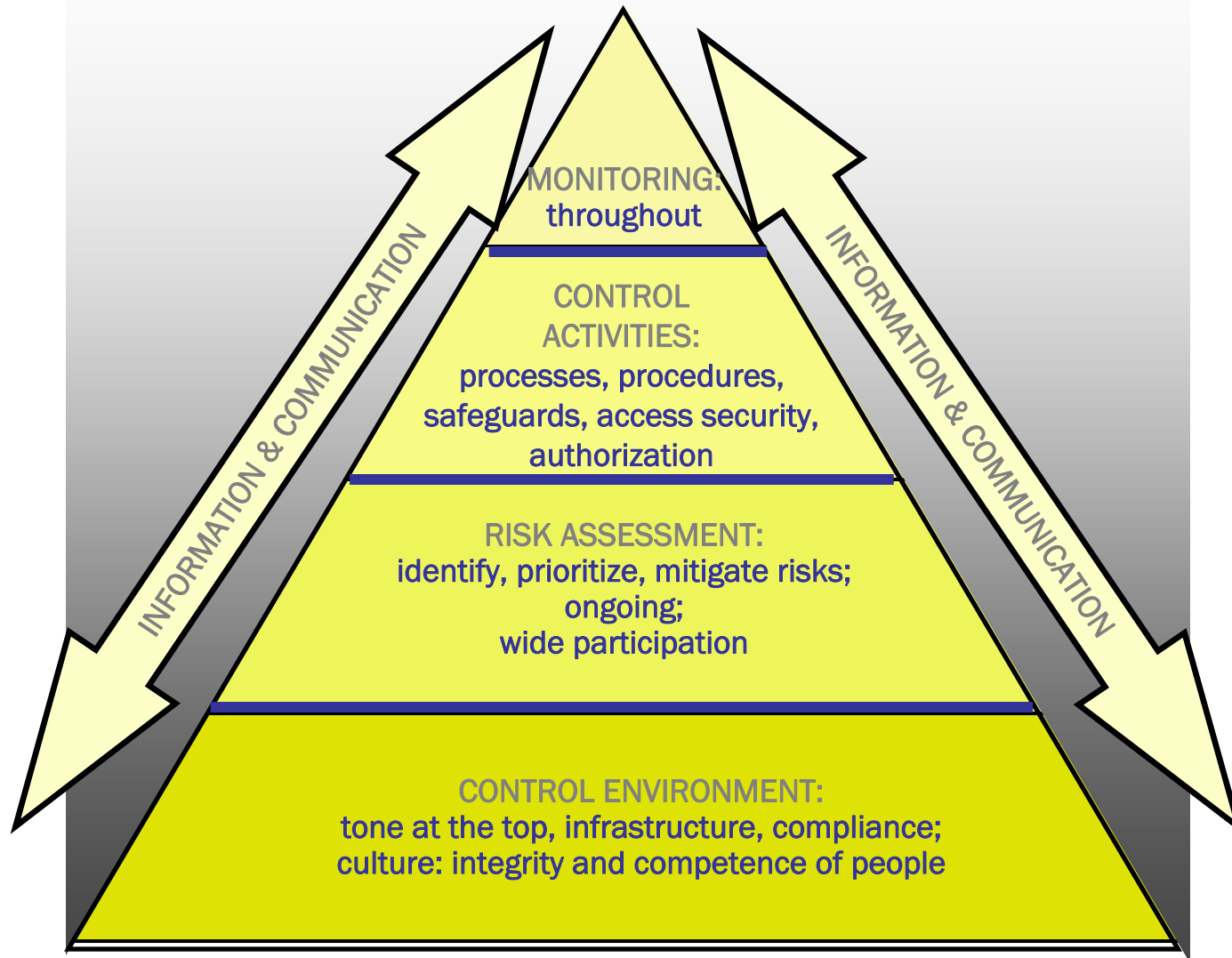


Internal control essentials:

- Some **key controls** include
 - Sufficient segregation of duties
 - Fraud prevention and detection controls
 - Backup and training of personnel
 - Documentation of internal controls and procedures
 - Effective monitoring of compliance with controls and procedures



Integrated Internal Control Framework



Adapted from Committee of Sponsoring Organizations of the Treadway Commission (COSO)
<http://risk.ifci.ch/00013184.htm>



Identifying internal controls

Objectives	Risks	Controls



Asset protection

- Buildings and other physical assets should be adequately protected and maintained, including safety monitoring
- Professional service providers such as custodian banks and investment managers should be hired only after due diligence and then closely monitored
- Organizations should track and closely manage expensive equipment such as computers, printers, and copy machines



Cash management

- Establish accountability for cash receipts and provide adequate safeguards
- Establish controls over disbursements to assure they are made only for approved and legitimate purposes
- Provide adequate cash for operations
- Utilize excess cash as investment or draw needed cash to reduce impact on investments



Key cash management functions

- Review internal controls over receipts and disbursements
- Reconcile bank accounts promptly
- Develop cash projections and use them



Controls over receipts

- Prenumbered receipts in duplicate.
Reconciliation with amount deposited in bank
- Two people count the cash
- Two people open mail and prepare list of receipts
- All receipts deposited on timely basis



Controls over disbursements

- Made by check with supporting documentation kept
- Two signatures? At least above a certain amount.
- Someone other than the check writer should receive bank statements and reconcile them



A Sample Cash Flow Projection

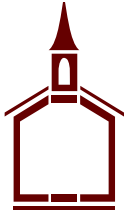
	Jan	Feb	March
Beginning Balance	100	90	70
Inflow	40	30	30
Outflow	<u>(50)</u>	<u>(50)</u>	<u>(50)</u>
Ending Balance	90	70	50

Objective:
keep the balance above -0-
but don't let cash sit idle



Conflict of interest

- Focus on both the appearance and reality of conflicts
- Have an explicit policy
- Be as comprehensive as possible: employment, vendors, volunteers
- Require disclosure (“fresh air is the best antiseptic”)
- Have process for monitoring compliance and resolution of potential conflicts



Insurance

- Insurance is a critical component of any risk management program
- Churches are a special risk category, not necessarily well understood by the local broker
- Look at Church Mutual, a UUA “preferred vendor,” which specializes churches



<http://www.churchmutual.com/>



Best practices

- Transparency
- Term limits for budget and investment committee members and for treasurer
Audits or other independent financial reviews
- Access to financial information by members of the congregation, including periodic reporting



Transparency

- Transparency fosters trust and support
- Be proactive in disclosing information
- Provide narrative in plain language, preferably accompanied by charts & graphs Distribute key financial reports on a regular basis: at each board meeting and at the annual meeting
- Post key financial reports on your website
- In the audited financial statements, focus on the **footnotes**, particularly with respect capital activity such as endowments and debt, fund raising revenues and costs, and functional expenses.



Term limits

- Term limits protect against both intentional and unintentional bad practices
- Trade-off between experience and new ideas and energy
- Most UUA volunteer jobs have limit of four two-year terms or two four-year terms
- Staggered terms provide continuity



Audits

Types of “audits”

- **Audit:** financial statements are accurate “in all material respects” and in accordance with generally accepted accounting principles (GAAP)
- **Review:** “limited assurance” in which analytical procedures applied and auditor “not aware” of any lack of conformity with GAAP
- **Compilation:** “no assurance, just read financial statements to see if there is any “obvious” lack of conformity to GAAP



Audits

What a real audit provides:

- “Assurance” of accuracy of financial statements “in all material respects”
- Does **not** mean that financial management is good
- Does **not** mean that there is no fraud



Reporting and access to financial information

- Monthly report to governing committee
- Written and oral report to annual meeting
- Post financial information on website
- Clear financial statements
 - Appropriate level of detail
 - Operating results; use of reserves



Best practices (2)

- Roles of bookkeeper, treasurer, finance committee; paid staff vs. volunteers
- Employee vs. independent contractors
- Separate audit committee for large organizations
- Documentation of internal controls and procedures



Resources

- Links to information sources are at the bottom of the Financial Advisor's reports page on the UUA website:

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Questions? Conversation?

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