

# TREASURER

Because of the important functions of the treasurer, it is wise to choose one who can be reelected to provide continuity in record keeping and reporting. Large churches may elect assistant treasurers as needed.

The treasurer can greatly encourage faithfulness in the returning of tithe and deepen the spirit of liberality on the part of the members. A word of counsel given in the spirit of the Master will help members to render faithfully to God His own in tithes and offerings, even in a time of financial stringency.

***Treasurer the Custodian of All Funds***—The treasurer is the custodian of all church funds. These include (1) conference funds, (2) local church funds, and (3) funds belonging to auxiliary organizations of the local church.

All funds (conference, local church, and local church auxiliary) are deposited by the treasurer in a bank or financial institution account in the name of the church, unless the local conference authorizes another system.

Surplus church funds may be deposited in savings accounts upon authorization of the board. Where large balances are carried for building or special projects, the board may authorize separate bank accounts. Such accounts, however, shall be operated by the treasurer and reported to the church along with all other church funds.

All church bank accounts are exclusively for church funds and are never to be combined with any personal account or funds.

***Conference Funds***—Conference funds, which include tithe, all regular mission funds, and all funds for special conference projects and institutions, are trust funds. At the close of each month, or more often **if requested** by the conference, the treasurer shall send to the conference treasurer the entire amount of conference funds received during that period of time. The church may not borrow, use, or withhold such conference funds for any purpose.

***Sabbath School Funds***—All Sabbath school offerings are to be passed over weekly to the treasurer by the Sabbath school secretary-treasurer, the treasurer keeping a careful record of all such offerings. These mission funds are transmitted to the conference office as outlined in the previous paragraph. Sabbath school expense funds are held in trust, subject to the orders of the Sabbath school council (see pp. 94, 95), to meet the routine expenses of the Sabbath school.

***Local Church Funds***—Local church funds include church expense, building and repair funds, and the fund for the poor and needy. These funds belong to the local church and are disbursed by the treasurer only by authorization of the board or business meeting. However, the treasurer shall pay from the expense funds all bills for local expense that have been authorized by the board.

***Funds of Auxiliary Organizations***—Auxiliary organization funds include such funds as church outreach programs, family life, Adventist Youth Society, Community\* Services/Dorcas Society, Sabbath school expense, and that portion of the health ministries funds belonging to the church, and may include church school funds. All money received by and for these organizations is turned over promptly to the church treasurer by the secretary of the organization, the deacons, or whoever has received the funds. These funds belong to the auxiliary organizations of the church. They may be disbursed only by order of the auxiliary organization to which they belong.

The treasurer shall give receipts for all funds received. On receiving money from the treasurer, the secretary of the auxiliary organization shall give a proper receipt to the treasurer.

***Safeguarding the Purpose of Funds***—When an offering is taken for worldwide missions or for any general or local enterprise, all money placed in the offering plate (unless otherwise indicated by the donor) shall be counted as part of that particular offering. All offerings and gifts contributed by individuals for a specific fund or purpose must be used for that purpose. Neither the treasurer nor the board has the authority to divert any funds from the objective for which they were given.

The funds of auxiliary organizations, often donations given for specific purposes, are raised for that special part of the church's work for which the auxiliary organization is established. Such funds are held in trust, by the treasurer, and they too may not be borrowed or in any way diverted by the treasurer or the board from the objective for which they were raised.

When an auxiliary organization is discontinued, the church in regular business session may take action indicating the disposition of any balance of funds in the account of the organization.

**Money for Personal Literature Orders**—Money for personal orders of literature, books, pamphlets, magazines, and subscriptions for periodicals is cared for by the treasurer in areas where a local Adventist Book Center does not exist. (See Notes, #6, p. 168.)

**Proper Method for Payment of Money by Members**—The treasurer should urge that all money paid in by members, other than the regular church collection, be placed in tithe and offering envelopes, unless an alternative method has been implemented by the conference. Members should list the various items and amounts on the envelope as indicated and to make sure that the money enclosed equals the total shown. They should also sign their names and give their addresses, and place the envelopes in the offering plate or hand them to the treasurer, who should preserve the envelopes to serve as vouchers until all accounts are checked by the conference auditor.

Members who return their tithes and offerings by check or postal notes should, where legally possible, make such checks or notes payable to the church, rather than to any individual.

**Receipts to Members**—Receipts should be issued promptly for all money received from members, no matter how small the amount, and a strict account of all receipts and payments should be kept by the treasurer. All general offerings not in envelopes should be counted by the treasurer in the presence of another officer, preferably a deacon, and a receipt given to such officer.

**Proper Method of Remitting Funds to the Conference**—In sending remittances to the conference treasurer, all checks, bank drafts, or money orders should be made payable to the organization wherever legally possible and not to any individual. A copy of the treasurer's records for the period should be enclosed with the remittance. Remittance blanks are furnished by the conference. (See pp. 130, 131.)

**Preservation of Financial Documents**—Financial documents, vouchers, or receipted bills should be secured for all funds received and disbursed in accordance with the system authorized by the local conference.

**Books Should Be Audited**—The conference treasurer, or other individual appointed by the conference committee, audits the church financial records, usually each year.

The treasurer's books and other financial records relating to the work of the treasurer, the church school treasurer, and the treasurer of any other organization may be called for and inspected at any time by the conference auditor or by the pastor, district leader, head elder, or by any others authorized by the church board, but should not be made available to unauthorized persons. (See SDA Church Manual p. 135.)

Reports of all funds received and disbursed should be presented at the regular business meetings of the church. A copy of these reports should be given to the leading officers.

When the number of individuals returning tithe in the church is reported, the spouse and minor children who are non-wage earners but members of the church should be counted in this group, in addition to the wage earner of the family.

**Relations With Members Confidential**—The treasurer should always remember that relations with individual members are strictly confidential. The treasurer should never comment on the tithe returned by any **member** or on the income or anything concerning it, except to those who share the responsibility of the work. Great harm may be caused by failure to observe this rule.

## **GENERAL INSTRUCTIONS**

### **ACCOUNTING**

- ❖ **Strongly recommend** use of a computer accounting program:

JEWEL  
QUICKBOOKS

#### **Why use a computer accounting program?**

- Time-saving
- Minimizes errors as information is entered only once
- Reports generated automatically
- Bank reconciliation automated
- Useful tool to track trend in income and expenses
- Use of sub accounts
- Does budget allocation automatically

### **ACCOUNTING SOFTWARE**

#### **JEWEL**

Developed specifically for Adventist churches. Used extensively in the Florida Conference.  
[www.jewelsda.com](http://www.jewelsda.com)

#### **QUICKBOOKS**

### **ORGANIZATION**

- ❖ Set up a filing system for the following:
  1. Cash receipt journal –deposit report
  2. Cash disbursements journal – check register
  3. Monthly financial statements
  4. Bank statements with reconciliation
  5. Cancelled checks, check stubs
  6. Disbursements voucher file – paid invoices attached to a cash disbursement form (D-2)
  7. Church Board minutes
  8. SECC weekly and monthly receipts summary
  9. 1099-Misc. forms and 1096 summary
- ❖ More efficient to file by category instead of month.

## **RECEIPTING**

- ❖ Make up a tithe envelope for all other income (e.g. rental income, concert tickets, SECC checks). Make sure that you post to a non-tax deductible offering code, if applicable.
- ❖ Designated donations are non-tax-deductible – for example, help to a needy person. (*IRS Publication 526*)
- ❖ Total deposit should match amount posted in your weekly cash receipts journal and the SECC offering summary report.
- ❖ Breakdown between Conference and local funds, as well as within local funds should agree with Conference report. If not, do correction envelope.
- ❖ Process any corrections or correction for NSF check in the next week's offering batch.

***"All offering and gifts contributed by individuals to the church for a specific fund or purpose be used for that purpose. Neither the church treasurer nor the church board has the authority to divert any funds from the objective for which they were given."***  
*Seventh-day Adventist Church Manual, Revised 2055, 19<sup>th</sup> edition, page 84*

## **DISBURSEMENTS**

- ❖ All checks written must have proper supporting documentation:
  - a) Original vendor invoice/cash register receipt attached to a cash disbursement form (D-2 form)
  - b) Check request form signed by appropriate church officer – for example - request for help to needy member; honorarium; advances (must later be supported by vendor invoices/cash register receipts)
  - c) Reference to church board action on the cash disbursement form
  - d) Credit card charges should be supported by the original copies of vendor invoice/cash register receipt, not just the monthly credit card statement
- ❖ Use checks in numerical order.
- ❖ No checks should be written to 'Cash' or in the name of the church.
- ❖ Checks/on line payments to the treasurer or treasurer's immediate family member should be approved and signed by another authorized person on the account.
- ❖ Enter all checks into your accounting system including voided/canceled checks. Date of check should be the date check was written.
- ❖ File invoices in numerical order attached to a cash disbursement form completed with the date of payment, payee, amount, description and account charged.

## **ONLINE PAYMENTS/BANK DEBITS**

- ❖ Need to have adequate supporting documentation.
- ❖ Recommend a separate file for online payments.
- ❖ Assign a number to each online payment on the monthly bank statement.
- ❖ Put that number on the supporting documentation such as vendor invoice, etc.
- ❖ Post that payment using the assigned number in your books.
- ❖ File in Online Payment folder.
- ❖ Online payments to treasurer must be approved by another authorized signer on bank account /Pastor/ Head Elder or other department head

## **CASH ADVANCES**

1. Church Board should set a dollar limit on \$ amount that department directors can advance for expenses without church board approval.
2. Department director must complete a check request form stating name of payee, amount and purpose.
3. Individual must adequately account for these expenses within 60 days after expense is incurred.
4. Adequate accounting is submitting all original receipts and vouchers and returning any excess amount.
5. If no adequate accounting is provided within 60 days, according to IRS rules, the entire amount is reportable as taxable income to the individual.

## **CHURCH CREDIT CARD**

1. Church board needs to have a policy.
2. Policy should include:
  - a) individuals authorized to have a credit card
  - b) what expenses and \$ limit that can be charged
  - c) no personal expenses to be charged
3. All original vendor receipts and vouchers must be turned in at the end of the month. Adequate supporting documentation is the vendor receipts and vouchers attached to the monthly credit card statement.

### **MONTH END**

1. All entries for the month have been posted (checks and deposits)
2. Enter any bank charges or interest.
3. Close the month.
3. Do the bank reconciliation.
4. Prepare all monthly reports.

### **BANK RECONCILIATION**

- ❖ Prepared monthly.
- ❖ Should include a list of all outstanding checks, deposits, bank fees, interest payment.
- ❖ Adjusted bank balance should agree to your financial statement balance and general ledger balance.

### **MONTHLY REPORT TO CHURCH BOARD**

- ❖ Report should be done monthly even if church board does not meet.
- ❖ At a minimum, report should include:
  - beginning balance,
  - income,
  - expense,
  - ending balances

of all local church funds and conference funds.

Total ending balance of all funds should agree to the reconciled bank balance.

- ❖ Include a list of checks written for the month.
- ❖ Bank and investment account balances.
- ❖ Outstanding loans and account payable balances.

## **YEAR-END CHECK LIST**

1. Fiscal year end closing - close all budget-allocated accounts to Church Budget. Accounting software programs can automatically do annual closing.
2. Be sure to handle correctly all year-end contributions according to IRS rules. A reminder in the church bulletin is recommended.
3. Christmas gifts made by the church to a pastor or other church employee represent taxable income and not a tax-free gift, and must be treated as income by either reporting it to the Conference payroll service or processing it through the Conference payroll.
4. Make sure that you have all the information needed to issue 1099-Misc. forms to any independent contractors - businesses (unless incorporated) or individuals (including honorariums) - to whom the church paid non-employee compensation of \$600 or more in the calendar year. Form must be issued to recipient by January 31 and sent to the IRS by January 31.

Church copy of Form 1096 and Copy C of 1099-Misc. forms to be filed and provided for audit.

## **COMBINED CHURCH BUDGET**

1. A combined budget is a useful tool to manage the church finances.
2. Church board sets an annual budget and allocates an amount to each department/fund – can be a \$ amount or percentage. The allocation is set in the accounting software.
3. At end of fiscal year, prepare YTD Budget and YTD Actual reports. Use that information to prepare the next year's budget.
4. At the end of fiscal year, close all budget allocated funds to Church Budget.

## **INTERNAL CONTROL FOR SECC CHURCHES**

- Achieve separation of duties. This ideal will provide safeguards for the treasury ministry. Receipting, check writing, and financial record keeping and reporting are three divisions that offer built in protection. Ask the nominating committee to name a treasury team. It is better to have different individuals count the money from those who write the checks.
- Counting of currency and coins by two or more persons who are scheduled on a rotation basis provides internal cash control and reduces opportunities for embezzlement to occur. Making a list of all loose currency and coins will provide a record for fluctuations.
- Encourage the use of checks not cash. Donors who do not use offering envelopes when they donate currency or coins provide one of the major opportunities for embezzlement.
- All church and conference monies shall be deposited in an account(s) with the church named as the owner of the account.
- Offerings deposited promptly in a bank, preferably by the first business day following weekend services, reduces the accessibility of funds and opportunity for theft.
- SECC allocations for use in ministries at the local church are to be deposited in the local church named account not in an account in the name of any individual.
- Appropriate documentation is required for all disbursements. Cash register receipts, invoices, check requests, or references to church board action are required. Substantiating vouchers need to include the items purchased (services received), price, total amount, and date.
- To safeguard the disbursements of funds the church board should establish a protocol for who is authorized to spend monies, up to what limits, and from which budgeted accounts. The board should also set a policy that requires prior approval for expenditures over a certain amount.
- No checks should be made payable to "Cash" or in the name of the church. Any checks payable to the church treasurer or his/her immediate family should be signed or approved by another authorized signer on the account.
- A two signature signing policy is a valuable control procedure for checks over a certain amount. Ask the Church Board to vote the amount.
- A Bank Reconciliation is to be done each month. Having the bank statements and reconciliations reviewed on a regular basis by someone other than the one charged with the responsibility for signing the checks, is a protection for the disbursement function.
- The Pastor should expect the Church Treasurer to provide regular monthly reports for all funds received and disbursed. These reports are to be given in a timely manner to the Pastoral Staff, Finance Committee (if available), and the Church Board, e.g., the financial statements for September 2013 would be presented at the October Church Board Meeting.
- All activity for the church's accounts shall be made available to the conference auditor upon request.



## **Basic Schedule of RETENTION OF DOCUMENTS**

<b><u>RECORD</u></b>	<b><u>RETENTION</u></b>
Audit Reports	Permanent
Bank Statements and Reconciliations	6 Years
Board Minutes	Permanent
Cancelled Checks (including bank copies)	6 Years
Check Register	6 Years
Contracts, Building	Permanent
Employment Records	Permanent
Insurance Policies	Permanent
Journals – Cash Receipts and Cash Disbursements	6 years
Journals – General	Permanent
Ledgers – General and Accounts Receivable	Permanent
Payroll Journals, Earnings Records, Time Cards	Permanent
Tithe & Offering Envelopes	4 Years
Vendor Invoices & Register Receipts (Disbursements)	6 Years
1096 Annual Summary and 1099 Miscellaneous Forms	Permanent

## FINANCIAL RECORDS BASIC REQUIREMENTS FOR AFFILIATE GROUPS

- ❖ Maintain a financial record keeping system for documenting the source and use of church funds.

If by computer: Detailed General Ledger, Monthly Financial Statements (including a Balance Sheet)

If by manual records or computer spreadsheet: Cash Receipts and Cash Disbursements Journals (examples available), Monthly Financial Statements (example in ***Local Church Accounting Manual*** – Appendix 2-1 with inclusion of same type of information for Conference funds in total is usually sufficient)

- ❖ Maintain separate files for the following:

- Monthly Financial Statements
- Detailed reports on accounting transactions (Detailed General Ledger, Cash Receipts and Cash Disbursements Journals, etc.)
- Bank Statements for each bank and investment account (include monthly reconciliations from bank balance to balance reported in your financial statement and check register for your checking account)
- Copy of minutes of the group's board meetings
- Weekly offering reports (received when offering envelopes are returned by the Conference)
- Monthly offering report summaries from the Conference Church Receipting Department
- Bank receipts etc. for deposits, returned checks, etc.
- Support documents to payments (File support documents – usually vendor invoices and receipts – in check number order). D-2 Forms are available from the Conference office to be used to organize these documents, identify the payee, amount, check number and fund to be charged.

- ❖ Keep the following in an organized manner:

- Offering envelopes (See “Suggested Procedures for Processing Offering Envelopes and Reports” in RECEIPTING section.) The processed batches of envelopes returned by the Conference Church Receipting Department should be filed in chronological order.
- Checks (use in check number order and file checks that clear the bank in check number order)
- Check register (Use the check register to identify the activity in your checking account. Log in your deposits, fill out the information for each check and keep a running balance for use in reconciling to your monthly bank statement.)

- ❖ The treasurer from the sponsoring church the group is affiliated with should check at least once or twice a year to make sure the affiliate group's financial records are in order.

## PROCEDURES FOR CHANGE OVER OF CHURCH TREASURERS

Action for the change should be formally taken at a church board meeting where the following should occur:

1. Board action to approve the updating of the signature cards on all church bank and investment accounts. (This meeting's minutes including the board action should be copied and taken to the bank or investment firm for each church bank and investment account, so the signature cards can be updated.)
2. The outgoing treasurer should provide his final financial statement.
3. For the period ended in the financial statement, the outgoing treasurer should also report the balances for all of the church and investment accounts. For balances that don't agree to the balance reported by the bank or investment firm, bank reconciliations should be provided to identify all reconciling items (outstanding checks, deposits in transit, etc.).
4. The outgoing treasurer should bring all church treasurer records and materials of which he/she has had custody to the board meeting.
5. For all other church treasurer records (usually for older records of earlier periods) that may be kept at a storage location, the access key should be reassigned at this meeting.
6. A list should be prepared and signed by both the outgoing treasurer and incoming treasurer to document the turnover of the records and other materials by the outgoing treasurer to the incoming treasurer. (See sample enclosed) The list of records transferred should be detailed and specific.

## CHANGE OF CHURCH TREASURER SAMPLE LETTER

November 1, 2013

I, Bill Jones, the incoming church treasurer, have received the following from Freddie Mac, the outgoing church treasurer, for the Rancho Cucamonga Seventh-day Adventist Church:

1. Financial Statements for the months of January 2013 through October 2013.
2. Bank Statements and Bank reconciliations for the checking account at Bank of America for the months of January 2013 through October 2013.
3. Bank Statements for the Savings account at Bank of America for the months of January 2013 through October 2013
4. File on Church CD investments at Union Bank for the months of January 2013 through October 2013.
5. Offering Envelopes, by weekly batches, from the beginning of January 2013 through the week ended October 26, 2013.
6. Receipts and Disbursements journals for the months of January 2013 through the unfinished month of October 2013.
7. Deposit book for bank deposits from January 1, 2013, through October 31, 2013.
8. Cancelled checks from checks #4523 through #4946 for the period of January 1, 2013, through October 31, 2013. (This excludes voided checks #4533 and #4752 and outstanding checks listed on the October 2013 bank reconciliation)
9. File for \$200,000 loan from the Pacific Union Revolving Fund that includes the loan agreement and receipts from the Pacific Union for each monthly payment.
10. Binding cases of support documents to checks in check number order from check #4530 through #4963 for the period of January 1, 2013, through October 31, 2013
11. Check register for the period of January 1, 2013, through October 31, 2013.
12. Copies of Board Minutes for meetings held during the months of January 2013 through October 2013.
13. Monthly offering summary reports for the months of January 2013 through October 2013.
14. Weekly offering reports from the beginning of January 2013 through the week ended October 26, 2013.
15. Audit Report for the last Audit from January 1, 2011, through December 31, 2012.
16. File containing current insurance policies.

## **CHANGE OF CHURCH TREASURER SAMPLE LETTER – *Continued***

17. Employment files containing time cards and Personnel Administrative Reports forms for Sally Jones, the church secretary, Ron Johnson, the church custodian, and Freddie Mac, the outgoing church treasurer.
18. Annual receipts from Conference for the year 2012.
19. The following supplies:
  - Unused checks from check #4964 to #5000
  - Unused Receipts and Disbursements Journals
  - Unused D-2 Forms
  - Unused Report Form for Payments to Non-Employee Service Providers
  - Unused Personnel Action Request Forms
  - Unused Time Cards
  - Key to storage room for older church financial records
  - Key to church post office box
  - Endorsement stamp and ink pad
  - 2 unused books of deposit slips

*Bill Jones*

Bill Jones, Incoming Church Treasurer

*Freddie Mac*

Freddie Mac, Outgoing Church Treasurer

## WAYS TO PROCESS DONATIONS RECEIVED FOR OVERSEAS AND NON-SDA ORGANIZATIONS

### Donations for Other than SDA Organizations

When you receive donations for other than SDA organizations, please return the checks without depositing them into the church's bank accounts. The church should handle donations only for entities of the Seventh-day Adventist Church that appear in the *Seventh-day Adventist Church Yearbook*. For donations members want to go to other than SDA organizations (Quiet Hour, 3ABN, Adventist Frontier Missions, Red Cross, United Way, Salvation Army, Disabled Veterans, etc.) have the members send their donations directly to those organizations.

### Donations for Overseas SDA Organizations

As mentioned above, the entity must appear in the *Seventh-day Adventist Yearbook*. There are several methods that can be followed to get these donations delivered to the intended entity:

1. **(Preferred Method)** Ask the member to remit their donation directly to: **Donation Center, General Conference of SDA, 12501 Old Columbia Pike, Silver Springs, MD 20904**. Please ask the member to make their check payable to the General Conference and identify the overseas entity and purpose for which the donated funds are to be used). The General Conference will then remit the donated funds through the SDA Church's levels of organization, i.e. Divisions, Unions, Conferences, and/or Missions.
2. Remit the donation to the conference (identifying the overseas entity and purpose for which the donated funds are to be used). The conference will then remit the donated funds to the Pacific Union and this will continue up the SDA Church's levels of its organization to the General Conference then down, level by level to the intended overseas entity. This process will take several months to get the funds to the intended overseas entity.
3. Direct donations to projects abroad. Please carefully note the conditions.
  - a. **IRS Publication 3233, Page 21. "Foreign Contributions** – Contributions to domestic, tax-exempt, charitable organizations that provide assistance to individuals in foreign lands qualify as tax-deductible contributions for federal income tax purposes provided the US organization has full control and discretion over the uses of such funds."
  - b. **IRS Publication 526, page 7[adapted]**. "[An individual] can deduct contributions to a US organization that transfers funds to a charitable foreign organization:
    - (i) if the US organization [e.g. your church] controls the use of the funds by the foreign organization [for a project that is formally approved by your church such as for an evangelistic effort or church/school building project which is being controlled, directed and conducted by a volunteer group from your church], or
    - (ii) if the foreign organization is just an administrative arm of the US organization [e.g. General Conference].

In order to provide the documentation needed for the audit by the conference, if the second option is used, supporting documentation would be evidence of communication that identifies the overseas entity and the purpose for which the donated funds are to be used. The original of this transaction should accompany the issued check and a copy of this would be support for the check in the records maintained by the church treasurer.

If a direct check from your church to a foreign entity is used (option 3), the name of the overseas entity should appear as the payee on the issued check and the purpose for which the donated funds are to be used should either appear on the issued check or in a document that would accompany the issued check (a copy of this document would need to be made as support for the check in the records maintained by the church treasurer).

If a bank transfer is used (option 3), the name of the overseas entity and the purpose for which the donated funds are to be used must appear in the message accompanying the wire transfer. A copy of the wire transfer with the accompanying message is to be maintained by the church treasurer as support for the wire transfer from the church's bank account.

For direct transfer by check or draft, evidence of receipt by the overseas SDA organization must be provided. Please request that the recipient overseas SDA organization issue a letter of acknowledgement on official letterhead or on an official receipt document for receiving the funds from your church for the purpose specified.

In order to prove direct control, your church records for audit must also include original invoices, receipts, vouchers, etc. in the foreign currency that substantiates your church's control of the overseas project whose cost equals the US\$ transfer.

## **INVESTMENT POLICY GUIDELINES FOR SECC CHURCHES AND SCHOOLS**

The \_\_\_\_\_ will invest church/school funds according to North American Division investment policies, S 85, (including any variances granted), and the Uniform Prudent Investor Act.

**NADWP S 85 10 (formerly S 46 10)** "1. Committees and Individuals authorized to invest funds for the denomination must always be mindful of their stewardship responsibility. Under the guidance of the Holy Spirit they should strive with prudence and wisdom to reflect the Master both in style and substance. At the practical level, this means direct investments will not be made in certain industries; it also means that principles of integrity and fairness will govern all transactions with counter parties."

The Southeastern California Conference Investment Committee voted on March 25, 1997 to include a social and religious values screen in its investing. Investments shall be chosen that do not 'substantially' invest in certain excluded stock. 'Substantial' is defined as being listed in the top ten investments of a given mutual fund portfolio. Excluded stock would include investments in alcohol, tobacco, meat packing, gambling, weapons contractors, entertainment, coffee, and caffeinated beverages."

The following guiding policy principles are provided so that each church or school can develop a **written** Investment Policy Statement for its particular situation.

### **Who will decide the investment policy and changes for the institution?**

- Church or School Board
- Business Session or Constituency Meeting
- Investment/Finance Committee

### **What are the purposes of the particular funds that are being invested?**

- Operations
- Endowment
- Capital or Building

### **What are the parameters of the funds?**

- Risk Tolerance
- Time Horizon
- Payout Policies
- Diversification
- Custody of Securities

### **Professional Advisors**

- Nature of Compensation
- Qualifications: Training and Experience
- Fiduciary Responsibility

**The above guidelines should not to be seen as exhaustive and should implement others as need might require.**

*Voted by Executive Committee - March 19, 2009*



## S 85 INVESTMENT OF DENOMINATIONAL FUNDS

**S 8505 Safeguarding Denominational Funds**—1. *Introduction*—In order that assets for investment might be prudently managed the following principles and policies have been adopted for the North American Division.

2. These policies are designed for application to denominational entities whose parent organization is a Union or the North American Division. However, academies and churches may be authorized to apply the provisions of these policies provided they meet the following guidelines:

a. Unions may authorize their conferences, individually or as a group to apply the terms of this policy to conference member organizations such as churches and academies.

b. Long-term fund investments shall be limited to true endowment or quasi endowment funds. Quasi-endowments are endowments free from third party or contractual obligations but established for designated long-term purposes by governing boards.

c. The conference executive committee shall take action, after evaluating the nature of the available funds and the skill resources available, recommending to the Union that the member organization apply the provisions of this policy.

d. The Conference shall arrange for annual financial reviews or audits with a report going to the conference executive committee.

**S 85 10 Philosophy**—1. Committees and Individuals authorized to invest funds for the denomination must always be mindful of their stewardship responsibility. Under the guidance of the Holy Spirit they should strive with prudence and wisdom to reflect the Master both in style and substance. At the practical level, this means direct investments will not be made in certain industries, which are not in keeping with Seventh-day Adventist values; it also means that principles of integrity and fairness will govern all transactions with counter parties.

**S 85 15 Principles**—1. *Prudent Investors*—Controlling committees defined as any group with the authority to give direction and control execution of instructions, must act as prudent investors would be expected to act, with discretion and intelligence, to seek reasonable income, preserve principal, and to avoid speculative investments, investments claimed to provide above-normal gains based on hypothetical opinion rather than fundamental research. To the extent reasonably possible and efficient, the operational role should be separated from the oversight role for investment management.

2. *Regulatory Environment*—All investments must be prudent and in harmony with the laws, rules and regulations of the jurisdiction in which the organization is located.

3. *Risk vs. Return*—A return correlates strongly with risk, but tolerance for risk varies greatly with the purpose of the funds for investment and the relevant circumstances of the organization. Levels of risk and return must be determined for all asset pools. Acceptable risk and return levels are guided by the purpose or objective of the funds. The management of the trade-off between risk and return is the committee's central task.

While investment vehicles which are by nature speculative are to be avoided, specific investments or techniques are not by themselves prudent or imprudent. The choices of techniques or investments to include in a portfolio are determined by the level of risk for a specific security and its anticipated effect on the portfolio.

4. *Diversification*—Controlling committees shall diversify the portfolios of intermediate (S 85 40) and long-term (S 85 45) assets for investment to avoid undue exposure to any single economic sector, industry group, or individual security. Pooled investment vehicles are the recommended method for facilitating diversification.

5. *Fairness*—When pooled funds are offered, interest and values must be established in such a manner that all investors are treated fairly based on length of time investments were held.

6. *Sole Purpose*—Controlling committees shall invest and manage each pool of assets solely in the interest of achieving the purposes for which each of the individual pools of assets were established, taking into consideration values held by the Seventh-day Adventist Church.

7. *Cost Control*—In investing and managing assets, a controlling committee must control costs to those appropriate and reasonable in relation to the size of the asset pools, the purpose of the asset pool and the skill of the controlling committee.

**S 85 20 Policies—1.** Investments in any company should not exceed 4.9 percent of the outstanding ownership of the entity.

2. At no time shall a controlling committee allow more than five (5) percent of the assets under its management, based on market value, to be invested in the securities of any one issuer other than government debt.

3. At no time shall a controlling committee allow more than fifteen (15) percent of the assets under management, based upon market value, to be invested in any one industry. Industries are defined as sub-groupings within macro-economic sectors (e.g. Sector = Technology, Industry = Hardware).

4. Retention of external managers or the construction of portfolios through the purchase of individual securities or vehicles should only be considered when the assets for investment are large enough to allow for appropriate diversification and to justify the fees associated with management of the fund and custody of the securities.

5. Use of Brokers

a. Criteria for Selection-In placing portfolio transaction orders on behalf of the Fund, the manager (internal or external - anyone with authority to approve the purchase or sale of securities) shall obtain execution of orders through well capitalized, qualified broker-dealers. Managers may not trade with affiliated brokerages.

b. Costs-All transactions must be executed at the optimum commission rates and spreads, taking into consideration the efficiency of execution of the transaction. All costs must be fully disclosed including direct commissions, reduction in yield, placement fees, management fees, administrative or any other benefits the brokers may receive as compensation. The committee should keep in mind that these types of costs are traditionally negotiated and the committee has the responsibility to negotiate the most favorable rates. Seeking prices from multiple vendors is strongly suggested.

c. Reporting-At least annually, the committee shall review a report detailing all commissions paid, including bid/ask spreads and new issue allocations by the Fund. Additionally, the report shall detail the benefits, if any, received in exchange for the commission dollars generated at each broker/dealer.

6. Controlling committees shall complete an asset allocation study in consultation with non-conflicted, qualified professionals for investment asset pools prior to investing any assets.

7. Common and convertible preferred stocks should be of good quality and listed on a major exchange or traded in the over-the-counter market with the requirement that such stocks have adequate market liquidity relative to the size of the asset pool.

8. Controlling committees shall approve an Investment Policy Statement for each asset pool in a format understood by the money management industry and consistent with this Working Policy, whether employing external managers or managing funds internally.

9. Convertible bonds, convertible into common stock, Real Estate Investment Trusts (REITs), and preferred stock are considered equity securities and thus are prohibited from being purchased as fixed income securities.

10. All members of controlling committees must have a current, signed conflict of interest statement on file.

11. Self custody of securities is not allowed. Controlling committees must select a recognized custodian to hold securities, to settle brokerage transactions, and to provide monthly detail of such transactions.

12. Retained professional investment advisors shall be appropriately qualified. The investment advisory contract should stipulate the fiduciary responsibility of the advisor, and the nature of compensation. It is required that compensation be based on fees, not commissions. All investment advisors must be registered as investment advisors with appropriate regulatory authorities.

13. Controlling committees shall require qualified legal review of account opening documents, management contracts, and powers of attorney.

14. Controlling committees are required to retain all records pertaining to transfers of assets, account documents, contracts, and statements.

15. When restricted or illiquid securities or real estate, acquired through donation or the maturity of a trust, are held until a prudent investor would liquidate such securities, they shall not constitute a violation of this policy.

16. Controlling committees must ensure that documented beneficial ownership is established for all securities held.

17. Investments listed in S 85 35 thru S 85 50 must at time of purchase meet all qualifying criteria. Should such investments subsequently fail to meet qualifying purchase criteria they may be held until a prudent investor would liquidate such investments and shall not constitute a violation of this policy.

**S 85 25 General Conference Unitized Funds—1.** The General Conference Investment Office serves the world field through a family of General Conference Unitized Funds that are designed to pool denominational funds for investment such that maximum economies of scale are achieved for the denomination and its mission. This family of General Conference Unitized Funds makes possible complex asset allocations and sophisticated portfolio construction with high levels of risk management through diversification of managers, management style and investment instruments that have been screened for the values of the denomination. As a part of the management service of the investment office, accounting, custody, performance appraisal, and auditing costs are included.

2. New funds may be created from time to time by the General Conference Investment Committee and approved by the General Conference Corporation. The following General Conference Unitized Funds are available:

- a. General Conference Money Fund
- b. General Conference Capital Preservation Fund
- c. General Conference OLDI Fund
- d. General Conference Bond Fund
- e. General Conference Income Fund
- f. General Conference U.S. Large Capitalization Equity Fund
- g. General Conference U.S. Small Capitalization Equity Fund
- h. General Conference International Equity Fund
- i. General Conference Emerging Markets Equity Fund
- j. General Conference Global Opportunities Fund

Each General Conference Unitized Fund, except the General Conference Money Fund and Capital Preservation Fund, offers monthly liquidity to all participants.

3. The portfolios of the General Conference Unitized Funds are composed of domestic and international equity, fixed income, and cash equivalent securities. Within this framework, the investment objectives of each General Conference Unitized Fund are as follows:

Fund Name	Primary Objective	Secondary Objective
General Conference Money Fund	Current Income	Stable Daily NAV
Capital Preservation Fund	Preservation of Capital	Current Income
OLDI	Income	Preservation of Capital
Bond Fund	Income	Preservation of Capital
Income Fund	Income	Preservation of Purchasing Power
U.S. Large Cap Equity Fund	Growth of Capital	Preservation of Purchasing Power
U.S. Small Cap Equity Fund	Aggressive Growth	Growth of Capital
International Equity Fund	Growth of Capital	Preservation of Purchasing Power
Emerging Markets Equity Fund	Aggressive Growth	Growth of Capital
Global Opportunities Fund	Growth of Capital	Preservation of Purchasing Power

**S 85 30 Classes of Funds**—1. Assets for investment at all organizational levels must be divided into three categories, relative to expected demand time horizon:

a. Short-Term Funds—Those funds not needed to cover immediate expenses but that may be needed during the next twelve months to support operating activities or projects that are anticipated to commence during that period. Short-term funds are to be invested to maximize current income with an emphasis on security of principal and liquidity.

b. Intermediate-Term Funds—Those funds that support operating activities and projects that are anticipated to commence after the next twelve months but within forty-eight months. They typically would include excess operating capital, funds held for building, and other projects. Intermediate-term funds are to be invested with the goal of obtaining a positive annual return but even more importantly, to protect against loss of principal. In order to accomplish this there is a willingness to sacrifice some positive returns to protect principal. It is the objective that asset growth should exceed the rate of inflation over the investment time horizon in order to preserve purchasing power of the invested assets.

c. Long-Term Funds—Those funds that are committed for retirement benefits, endowment, quasi endowments, or other long-term needs where fluctuations in market value are acceptable in order to achieve greater anticipated long-term returns. It is recognized that fluctuations in market values may result in negative rates of return in some years. Long-term funds are invested with the objective that the market value of the investments should grow in the long run and earn rates of return in excess of the general market indices.

**S 85 35 Investment of Short-Term Funds**—1. All short-term securities purchased must have adequate market liquidity, should not represent a significant exposure relative to the size of the controlling committee's short-term portfolio and must be rated A-I, P-I or equivalent except those issued by a sovereign government, or an agency thereof guaranteed by that government.

2. All denominational organizations, institutions, and services are authorized to invest short-term funds (current account items such as working capital and trust funds) in the following investment categories, maturing within twelve months:

- a. Certificates of Deposit of insured institutions, up to insured limit
- b. General Conference Capital Preservation Fund or Unitized Money Fund or other money market funds with assets in excess US\$250,000,000
- c. Union revolving funds and union deposit funds
- d. Securities issued by national governments, their agencies and local government bodies including states and provinces, or government obligations denominated in the local currency of the investing organization
- e. Registered, open-end (mutual) funds which normally do not have 12b-I fees or their equivalent and comply with all provisions of S 85 15 that generally hold securities that mature in 12 or less months
- f. Exchange Traded Funds (ETFs) that generally hold securities that mature in 12 or less months.

**S 85 40 Investment of Intermediate-Term Funds**—1. All provisions in S 85 35.

2. Marketable bonds rated "investment grade" or better by Standard and Poor's (BBB- or higher) and Moody's (Baa3 or higher) or one of their subsidiaries. If Moody's or S&P or their subsidiaries do not rate a security, then the Fitch (BBB- or higher) or one of its subsidiaries rating will be used. For split rated securities, the lowest rating will apply.

3. Intermediate-term issues with up to four years average life unless matched for specific liability dates. Intermediate-Term investments include:

- a. Securities that have an average life of less than forty-eight months.
- b. General Conference Unitized Bond and Income Funds
- c. Special temporary employee loans. (These interest-bearing loans are given under special conditions such as in connection with a move. The controlling committee, board, or properly appointed subcommittee must give approval for each loan with the details on file with the minutes.)

4. Other Intermediate-term issues with an undetermined average life.

- a. Union deposit funds
- b. Registered, open-end (mutual) funds which normally do not have 12b-I fees or their equivalent and comply with all provisions of S 85 15
- c. Exchange Traded Funds (ETFs)

d. Convertible bonds, convertible into common stock, Real Estate Investment Trusts (REIT's), and preferred stock are considered equity securities and thus are prohibited from being purchased as fixed income securities.

**S 85 45 Investment of Long-Term Funds**—1. All provisions in S 85 35 and S 85 40.

2. Long-Term investments include:

a. Intra-denominational loans adequately secured by recorded mortgage or parent organization guarantee, deeds of trust, chattel mortgages on equipment, and interest-bearing with a repayment schedule. In addition, loans to denominational organizations within the loaning entity's territory but not under its jurisdiction, shall require either a guarantee or a "no objection" from the controlling committee of the borrower's larger organization,

b. All equity focused General Conference Unitized Funds,

c. Vendor contracted investment funds as arranged by the General Conference Investment Office.

d. Fixed Income:

1) G-7 Government and their Agency Securities (such as "Ginnie Mae's," "Fannie Mae's," and "Freddie Mac's").

2) Corporate notes and bonds maturing within thirty years.

3) First mortgages on an employee primary residence with up to 90 percent loan to value and repayment through a payroll deduction.

4) General Conference Bond and Income Unitized Funds or an income fund with a thirty-six month average life.

e. Registered, open-end (mutual) funds. Funds shall be evaluated as to types of fees and the impact upon performance.

f. Exchange Traded Funds (ETF's).

g. Well capitalized, non-speculative Real Estate Investment Trusts (REIT's) listed on a recognized exchange.

**S 85 50 Special Consideration Securities**—1. Union Conferences and the North American Division will set up and appoint Investment Oversight Committees. Existing union investment committees may be assigned this function if appropriate. Such committees will include disinterested professionals with current investment skills, and will have the authority to authorize qualifying member organizations under their purview to invest in the following investment vehicles in addition to the options described in S 85 35, S 85 40, and S 85 45 above. Such authorization shall be renewed every three years. Qualifying organizations will have:

a. A large enough investment pool to be cost effective to invest in such instruments.

b. A current Investment Policy Statement as described in S 85 15-9.

c. A professional staff and/or consultants managing such investments.

d. An action from the governing body to be authorized for such investments.

2. Short-Term Investments

a. Banker's acceptances created in international trade

b. Commercial paper

c. G-7 Government and government guaranteed agency securities with less than one year to maturity or government issuances denominated in the currency of the controlling organization

d. Corporate securities, which satisfy all of the limitations stated above, with less than one year to maturity

3. Long-Term Investments

a. Common stocks, American Depository Receipts (ADR's) of foreign companies, and ordinary shares of non-U.S. securities or warrants thereon, listed on recognized exchanges.

b. Preferred stocks rated investment grade.

c. Convertible securities including debentures rated investment grade.

d. Sales and repurchase of covered calls listed on a recognized exchange.

e. Mortgage and other asset backed securities maturing within thirty years with the following exceptions:

1) Subordinated debt is prohibited.

2) All collateralized obligations must be rated AA or better.

3) Interest Only (IO's), Principal Only (PO's), Inverse floaters and all other leveraged tranches are prohibited.

4) Syndicated real estate mortgages limited to 80 percent of the fair market value of the collateral.

5) Private debt placements secured by an irrevocable letter of credit issued by institutions rated A-1 or P-1 or its equivalent.

f. Real Estate—Syndicated with institutional investors and representing no more than 25 percent interest in the property(ies) or if a single property principally owned, investment shall require professional consultation and management advice and prior approval by the controlling committee.

g. High yield bonds

h. Partnerships investing in equity securities which are managed defensively.

i. Derivative contracts may be used to reduce or manage the risk exposure of a portfolio when used in combination with the other portfolio holdings and within the context of the manager's overall strategy.

1) Contracts can be used in lieu of cash market transactions only when fully documented and when their valuation, execution and/or cost provide relative advantages.

2) Adequate liquidity for contract margin requirements must always be coordinated within the overall manager's strategy.

3) Asset sales for cash must be accomplished in an orderly way.

4) The manager may utilize derivative contracts to replicate the risk/return profile of an asset or combination of assets provided that the guidelines allow such exposures with the underlying assets themselves. Derivatives may not be used to produce exposure to an asset, asset class, index, interest rates, or other financial variables that would not otherwise be allowed in the portfolio guidelines where derivative contracts are not allowed.

5) At no time shall the portfolio, in aggregate, be more than 100 percent invested.

**S 85 55 Exceptions**—1. Exceptions for securities and investments not covered in this S 85 policy may be requested in writing through the NAD Treasurer/Chief Financial Officer to the North American Division Committee, or in the cases of Conference subsidiaries through the Union Treasurer/Chief Financial Officer to the Union Executive Committee.

2. It is recognized that where the Church operates a Trust Services function, national, state or provincial trust legislation contains regulations that supersede the provisions of the S 85 policy.