

MONITORING REPORT: FINANCIAL Executive Limitations Policies #3, 4, 6, and 9 September 2009

POLICY EL #3:

FINANCIAL PLANNING AND BUDGETING

Budgeting for any fiscal year or the remaining part of any fiscal year shall not deviate materially from the Board's Ends priorities, risk fiscal jeopardy, or fail to be derived from a plan of not less than three (3) years.

INTERPRETATION:

We interpret this policy to mean that in developing and monitoring both operating and capital expense budgets, the Executive Team must incorporate the Board's Ends policies, avoid risks that would financially jeopardize the church, and project budgets out three years. Specifically, budgets need to contain enough information for a reasonable projection of key financial data into the future. Budgets will balance expenses with a conservative projection of income. Budgets should not vary more than 5% in total and 3% in pledge income from the previous year. Budgets will follow reasonable historical limits regarding shrinkage. The Executive Team would need Board approval for adding new staff positions into the budget. Total salary and benefit costs must not exceed 70% of the budget total unless a congregational vote is obtained. Support for the Board will be included in the budget with Board liability insurance and by allocating 0.5% of the operating budget for GP #6. Budgets will have a process for replenishing reserves for long-term capital expenditures, ministerial sabbaticals, ministerial searches, and loss of significant rental income.

Accordingly, the Executive Team shall not allow budgeting that:

1. Contains too little detail to enable reasonably accurate projection of revenues and expenses, separation of capital and operational items, cash flow, and disclosure of planning assumptions.

We report compliance. No one has asked for more detail in the budget or monthly reports to the Board.

2. Plans the expenditure in any fiscal year of more funds than are conservatively projected to be received in that period.

We report non-compliance.

Operating Budget: For fiscal year 09-10, the budgeted income is \$784,270 and the budgeted expenses are \$783,832. The amount of pledges we have received for this fiscal year is \$589,033 which is less than the \$606,000 projected in the budget. The overall shortfall, adjusted for changes to expense items is \$11,000.00.

City Tax Audit: A recent audit by the city of Wilmington revealed that First Unitarian Church of Wilmington owes \$12,066 in unpaid city payroll taxes, fees, penalties and interest from the period of 2000-2009. Update: the audit was resolved for \$4493.83

OUR PLAN TO BRING US INTO COMPLIANCE:

Operating Budget: At the end of fiscal year 2008-2009 we had a surplus which we allocated to a variety of reserve funds, including a general reserve. The balance in the general reserve as of 8/31/09 is \$30,976.00 Although we did not originally plan to use general reserve funds towards operating income, a portion of this money is available to make up the \$11,000.00 projected shortfall if needed.

City Tax Audit: The general reserve is unavailable to cover this amount because of the projected budget shortfall and replenishing the Capital Expense Reserve Fund. We are therefore recommending that the Board designate part of the earnings from the Heritage Fund in the month of August to cover the audit bill. Update: since audit was settled for much lower amount, for the time being we have paid the \$4493.83 from the operating funds under Benefits and Taxes. Later on in the fiscal year we can determine if funds are needed from the Heritage Fund to cover this amount.

3. Varies in total by more than 5% from previous budget, either current or previous year.

We report compliance and have the approval of the Board and the congregation for this fiscal year. Due to difficult economic environment, we had a pledge income shortfall and reduced reserves. We had to create a much smaller budget which included salary cuts, cuts in professional expenses and no funding for reserves. FY 08/09 budgeted income was \$874,615, FY 09/10 is \$784,270. This was a 10% reduction.

4. Contains pledge income that varies by more than 3% from previously reported budgeted pledge income.

We report compliance and we have approval of the Board and the congregation for this fiscal year. Our budget for 08/09 included a budget of \$628,420 in pledge income. For FY 09-10 we planned for \$606,000 in pledge income, based on results of the pledge drive as of May 2009. The difference, \$22,420 is 3.6% less than previous year's budget for pledge income. Moreover, latest pledge information indicates total pledges for 09/10 will be \$589,033. Our actual pledge income for FY 08/09 was \$614,941. This represents a 4.2% reduction in actual pledge income. Moreover, latest pledge information indicates for FY 09/10 total

pledges will be \$589,033. Our actual pledge income for FY 08/09 was \$614,941. This represents a 4.2% reduction in actual pledge income.

5. Does not provide for shrinkage of pledge income within reasonable historical limits.

We report non-compliance, but with the approval of the Board and the congregation. We planned for an 8% shrinkage rate this year, which was determined both by review of historical data and allowance for difficult economic situation.

6. Contains staffing costs for positions which have not been approved by the Board of Trustees.

We report compliance. All funding for positions currently on staff have been approved within the budget for FY 09/10. The only change being planned is changing the status of 3 babysitters from contract employees to limited part time employees. The positions were funded as contract positions in the 09/10 budget.

7. Provide for total salary and benefit costs exceeding 70% of budgeted total annual income without approval of the Congregation.

We report compliance. Approval from congregation was obtained at the annual meeting in May 2009 to exceed the 70% rule for FY 09/10.

8. Does not include funding for Board of Trustees liability insurance.

We report non-compliance, but with the approval of the Board and the congregation. We listed this as a planned item in the budget, but were unable to fund it due to low pledge income.

9. Annually provides less than 0.5% of the operating budget in support of GP #6 cost of Governance.

We report non-compliance, but with the approval of the Board and the congregation. We listed this as a planned item in the budget, but were unable to fund it due to low pledge income.

10. Fails to contain a process to maintain reserves that are sufficient to cover:
a. Expected long-term capital expenditures as determined by an ongoing multi-year plan.

We report non-compliance. Our original budget for the painting, windows and wood repair was \$16,500. The actual projected cost once completed will be \$29,862. The maximum we were allowed to take from the Capital Expenditure Reserve FY 09/10 was \$24,268. We exceeded our allowable spending limit for FY 09/10 as well as exceeded the budget. By exceeding the

budget, we lost \$7800 planned carry over. FY09/10 we had a line item to transfer 2.5% of the operating budget to replenish the capital expenditure reserve, but did not have pledge income to fund this line item

OUR PLAN TO BRING US INTO COMPLIANCE:

Once the project has been paid for, the Executive Team will transfer funds from the general reserve to replenish the Capital Expenditure reserve for the amount in excess of \$24,268. (approx. \$5600) which will bring the balance of the fund back into compliance.

Our plan for FY 10-11 is to focus on replenishment of the capital expenditure reserve, rather than do any large projects.

Please also note that roof leak problems were discovered this summer which we were not aware of when drafting budgets for FY 09/10. The cost of patch and repairs is estimated at \$3100. The cost of these repairs will be pulled from our general reserve fund.

b. Expected ministerial sabbatical expenses as determined by ministerial agreements.

We report non-compliance and with the approval of the Board and the congregation. We listed this as a line item in the budget for FY09-10 but were not able to fund it due to low pledge income.

c. Future ministerial search processes

We report compliance. Current search reserve contains \$6614 as of 8/31/09. We also plan to include a line item in the operating budget each fiscal year to add to this reserve.

d. Significant loss of rental income

We report non-compliance and with the approval of the Board and the congregation. We listed this as a line item in the budget for FY09-10 but were not able to fund it due to low pledge income.



POLICY EL #4: FINANCIAL CONDITION AND ACTIVITY

With respect to the actual, ongoing financial condition and activities, the Executive Team shall not cause or allow the development of fiscal jeopardy or material deviation of actual expenditures from Board priorities established in Ends policies.

INTERPRETATION:

We interpret this policy to mean that the Executive Team will not allow fiscal jeopardy or permit significant expenditures that lead away from the priorities laid out in the Board's Ends policies. Specifically, the Executive Team must keep expenses within the bounds of the established budget, and such expenses must be incurred with the Board's established Ends' priorities in mind. No commitments can be made that binds financial obligations beyond the current budget year without board approval. We must request Board approval for any requested expenditure in excess of \$7,500. At least two bids must be obtained for any expenditure in excess of \$2,500, where practical. It is assumed that an expenditure would not require competitive bids if it were considered an emergency, and delay of the expenditure to obtain bids would cause a serious problem. Funds received from givers must be expended in the manner requested by the giver. Church debts, taxes and filings must be completed and settled in a timely fashion. A statement for pledge commitment and payments made will be mailed to members on a monthly basis or in the last month of each quarter. Monies owed to the Church and not paid within a reasonable period shall be pursued aggressively. The Executive Team may not purchase, sell or encumber real property.

Accordingly, the Executive Team shall not:

1. Expend more funds than have been budgeted for in the fiscal year.

We report compliance for the Operating Budget. For FY 09-10, as of August 31, 2009, actual operating income was \$163,760, and expenses were \$123,085. Our operating income is at 119% of budget for the first two months of the fiscal year.

We report non-compliance for the Capital Expenditure Budget. The congregation voted to approve this budget at the Annual Meeting in May 2009. The budget planned to spend \$16,500, and called for a \$7800 carryover to FY 10-11.

OUR PLAN TO BRING US INTO COMPLIANCE:

See EL 3.10.a for our plan to come into compliance.

2. Commit to spending that creates binding financial obligations beyond current budget year without Board approval.

We report compliance. No financial obligations have been made beyond the current budget year. Grants were approved in the budget in May 2009 for the UUs of South Jersey Shore and to the UUs of Central Delaware as per the congregation – approved five-year Grants for Growth Fund – contingent on available future funding. We paid all grants for FY08/09.

3. Make any single unbudgeted purchase or commitment exceeding \$7500.

We report compliance. We have not made any unbudgeted purchases over \$7500.00. The cost of patch and repairs of the roof leak problems is estimated at \$3100. The cost of these repairs will be pulled from our general reserve fund.

4. Make any expenditure exceeding \$2500 will require two competitive bids where practical.

We report compliance. For newly identified roof projects, as well as the summer painting and repair work, 2 or 3 bids were reviewed.

5. Expend any endowment or designated funds other than for the purposes determined at time of receipt or designation.

We report compliance. The ET has not spent any funds for other than the purpose intended.

6. Fail to settle payroll and debts, or to complete government-ordered filings/tax payments, in a timely manner.

We report non-compliance for the period prior to FY 08/09. We were audited by the City of Wilmington in September. The wage tax audit covered the period from 2000 to 2009. As an employer, the church is required to withhold and pay for city wage tax for employees who are residents of the city, even though they work in New Castle County. Although we have a payroll service that handles our twice-a-month payroll and takes care of all tax filings, the church failed to meet this obligation consistently. A call to our payroll provider, Paychex, indicated that they do not determine the need to withhold city wage tax for Wilmington, and that the employer is required to tell them the employee is a city resident.

For FY 08/09 and forward we report compliance. The Business Manager has acquired a coding chart from the City of Wilmington and will confirm if an employee is subject to city wage tax withholding. We currently have 2 employees who are city residents and they have been subject to withholding during their employment with the church.

Payroll was done on 7/15, 7/31, 8/14, 8/31, 9/15, 9/30. Quarterly tax filings and payments were transmitted on 10/2/09. Records are available in the Business Manager's office.

OUR PLAN TO BRING US INTO COMPLIANCE:

The Executive Team will be changing the Personnel Procedures Handbook to require that the Business Manager check the residential status of all new employees prior to starting employment or if they move during employment at First Unitarian Church so as to be compliant with all payroll tax codes. The Business Manager will also be responsible for informing the payroll service of the tax status of all First Unitarian Church paid staff as well as staying informed of changes in the tax code as they may impact our employees.

7. Fail to aggressively pursue receivables after a reasonable grace period.

We report compliance. Receivables consist of pledges and rental income.

Fran Grubb, the Administrative Assistant, rigorously pursues rental issues when rarely necessary. Quarterly statements are mailed to all members, currently our sole means of reminding members if their pledge payments are in arrears. The last quarterly statements were mailed July 30, 2009 for period ending June 30, 2009.

8. Acquire, encumber or dispose of real property.

We report compliance. We did not acquire, encumber, or dispose of any real property during fiscal year 2008-2009, nor have we done so to date in FY 09/10.

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POLICY EL #6: ASSET PROTECTION

The Executive Team shall not allow the assets to be unprotected, inadequately maintained, or unnecessarily risked.

INTERPRETATION:

We interpret this to mean that the Executive Team will ensure that assets are protected, adequately maintained and not subject to unnecessary risk. Specifically, that sufficient insurance coverage must be maintained to ensure adequate replacement value coverage. The members of the Board are protected against personal liability in their capacity as trustees under the Church’s certificate of incorporation and Delaware law, except for bad faith acts or breaches of the duty of loyalty. (A breach of the “duty of loyalty” means action motivated by an interest other than the best interests of the Church. The classic example is self-dealing, like embezzlement or selling church property to a trustee or officer at an unfair price.) The staff members are not exonerated under Delaware law, which is why we carry insurance for them. Two or more people must have access to church funds. The building must be properly maintained, and wear and tear must be monitored to prevent unnecessary damage. Activities that might jeopardize the Church’s non-profit status are not allowed. The handling of funds must meet the standards of the Board-appointed auditor. The Executive Team will invest non-operating capital funds to maximize return without taking unnecessary risks. This can be done by maintaining the following ranges for asset weights in endowment funds: Equities 60%-70%, Fixed Income Bonds 20%-40%, and CDs and Money Market Funds 5%-25%. Files, information and historical data must be protected from loss or damage. The Church’s public image and credibility must be maintained to ensure the ability of the Church to carry out its mission. The Executive Team will cooperate with all outside audits the Board conducts in its capacity of external inspection.

Accordingly, the Executive Team may not:

1. Fail to insure against theft and casualty losses as close to replacement value as possible, less reasonable deductible and/or co-insurance limits.

We report compliance. The church has an insurance policy through KTD which includes coverage for theft and casualty. It carries a \$250 deductible for loss of business personal property.

2. Fail to insure against corporate liability and personal liability of Board members and staff, taking into account pertinent statutory provisions for indemnification and exemptions applicable to Delaware non-profit organizations.

We report partial compliance. We have an umbrella policy that covers liability in many ways, including staff members and volunteers on church business. The Board wishes to purchase board and officers liability insurance in addition to our umbrella policy. Due to the austerity of the budget in fiscal year 09/10, Board insurance was not funded.

3. Allow single party access to church funds.

We report compliance. The Administrative Assistant manages the accounts for the money coming in, and the Business Manager primarily manages payments of checks, with the Treasurer overseeing all. Depending on the account, at least two of the following are authorized to take action on church accounts: The President, Treasurer, Business Manager, Finance Team Chair, and Administrative Assistant.

4. Subject plant and equipment to improper wear and tear or insufficient maintenance.

We report non-compliance. As we discovered this summer, major maintenance items which had been deferred had been delayed for too long. Wood trim around the building had not been painted in a very long time and much of it needed to be replaced. Additional projects have been identified, and will be addressed when funding is available.

OUR PLAN TO BRING US INTO COMPLIANCE:

Completion of this project will bring us in compliance as far as maintenance is concerned. The Building and Grounds Team and the Green Sanctuary Team work with our Building Supervisor to plan maintenance and improvement projects. Several roofs have been replaced in the last few years, however additional roofs need to be repaired and replaced in the near future. A grounds clean up day was conducted in August, and additional work days are planned.

5. Unnecessarily expose the organization, its Board or staff to claims of liability or risk the nonprofit status.

We report compliance. The Executive Team has not taken any action that would move us outside the parameters defined by this limitation.

6. Receive, process or disburse funds under controls insufficient to meet the Board-appointed auditor's standards or other government standards.

We report compliance. As a result of the self-audit conducted this year, the Administrative Assistant will periodically audit the Business Manager. This is in addition to the practice of the Business Manager periodically auditing the Administrative Assistant.

7. Fail to invest non-operating capital funds to maximize long-term total return of the assets and maintain consistency of performance, without exposure to undue risk. Specifically, they may not:

- a) Invest the various portfolios of First Unitarian Church in asset classes other than domestic (U.S.) and international equities, fixed income securities and cash equivalents.
- b) Fail to limit its investment purchases to mutual funds and exchange traded funds.
- c) Purchase investments in individual equities or bonds.
- d) Fail to invest assets needed to supply cash flow for short term needs (less than two years) or where the timing of the need for monies is undetermined in money market funds and other liquid fixed income investments.
- e) Fail to use government-only funds for all money funds.
- f) Fail to keep stocks cash or tangible property gifted to the church for a specified purpose separate from the overall investment portfolio until such time that the gift is utilized by the church.
- g) Fail to sell individual securities that are gifted to the church and invest the proceeds according the then current asset allocation of the specific fund.

We report compliance. Our operating funds are in an operating checking account (the balance is under \$250,000 so they are insured) and a Janney-Montgomery Scott cash-equivalent account – all US Treasury funds. Funds from the Capital Campaign now reside at PNC Bank. Additional Capital Campaign funds reside at Citizens Bank in Insured Money Market accounts, as well as laddered CD's at Del One and Sun East credit unions. Under the new FDIC rules and credit union private insurance, these accounts are all insured up to 2013.

8. Fail to evaluate the performance of the investment portfolio quarterly on a total return basis, and review performance with the Board on an annual basis.

We report compliance. Accounts are reconciled and reported to the Executive Team and Board by the Business Manager and Treasurer on a monthly

basis. Investments are reviewed by the Finance Committee each month. The Executive Team will schedule a time in the Board's calendar to present the performance of the investments.

10. Fail to protect intellectual property, information, and files from loss of significant damage.

We report compliance. We back up our computers daily as well as engage in off-site protection once a week. Confidentiality is maintained with password protection on all staff computers. The new non-broadcast Wi-Fi network in the church is also protected through passwords and SSID codes with limited access.

11. Endanger the organization's public image or credibility, particularly in ways that would hinder accomplishment of its mission.

We report compliance. The Executive Team has not taken any action that would move us outside the parameters defined by this limitation.

12. Fail to arrange for regular conduct of outside audits and professional investment advice.

We report compliance. The church has a broker managing our investment accounts in consultation with our Finance Chair. The Treasurer is collecting audit proposals to be approved by the Board at their 9/21/09 meeting. The Executive Team will cooperate with the chosen vendor during the audit.



POLICY EL #9: ENDS FOCUS OF GRANTS OR CONTRACTS

The Executive Team may not enter into any grant or contract arrangements that fail to emphasize primarily the production of Ends and, secondarily, the avoidance of unacceptable means.

INTERPRETATION:

We interpret this policy to mean that the Executive Team will enter into grants and contracts that promote the results described in the Ends and avoid the unacceptable means described in the Executive Limitations. Specifically, the Executive Team will ensure that grants and contracts are not used in imprudent, unlawful, or unethical ways. The Executive Team will monitor the applicant's ability to accomplish results in line with the Ends.

Accordingly, the Executive Team shall not:

1. Fail to prohibit particular methods and activities to preclude grant funds from being used in imprudent, unlawful, or unethical ways.

We report compliance. The Growth Team supports and monitors activities of both the South Jersey UU's and the Dover congregation. In June 2009 we made payments to both congregations which completed our obligations for FY08/09. The grants planned for FY09/10 are contingent on funds being available – and ET will review in January to see if a payment can be made at that time.

2. Fail to assess and consider an applicant's capacity to produce appropriately targeted, efficient results.

We report compliance. The only grants we currently provide are the Grants for Growth. The Growth Team is tasked with vetting the recipients. Maggie Duffy collects suggestions for recipients for Special Collections and presents them to the Executive Team for final approval and scheduling. One of the selection criteria is the applicants' capacity to produce results that are in alignment with our principles.

EXECUTIVE TEAM ASSESSMENT:

The past three months have been an extraordinary time in the financial life of First Unitarian Church. In some ways it is the best of times and the worst of times. The building was in worse shape than we had anticipated or had budgeted for. However, the early payment of the mortgage meant that there was more money in reserves than anticipated, and these reserves helped to cover the costs of desperately needed deferred maintenance. The highly unexpected payroll audit by the city of Wilmington carried a high price tag that needed immediate action at the worst possible time. However the Heritage Fund enjoys impressive returns on our investments. All of these events have required that the Executive Team make, or recommend the Board make, significant financial decisions. The Executive Team is concerned that these actions have been done in the beginning of the fiscal year. We will need to be extremely judicious with financial decisions in the remainder of the fiscal year.

Respectfully submitted by the Executive Team,

Rev. Dr. Joshua Snyder,
Rev. Barbara Gadon,
Marina VanRenssen