S GENERAL FINANCIAL POLICIES

S 04 Financial Operations and Environment

S 04 05 Role of Leadership in Financial Matters—It is the responsibility of organisational leadership to manage financial matters with integrity. Every leader must model behaviour that is guided by a commitment to ethics, transparency, and accountability. This behaviour is critical for building confidence in the overall Church organisation. To sustain this confidence, open communication must take place among the employees of the organisation, between management and the controlling board or executive committee, between the organisation and its constituents and other stakeholders, and between the organisation and higher organisations. Beyond modeling behaviour, it is imperative for leaders to promote and design the most appropriate systems that will safeguard the resources which are used to support the mission of the Church.

S 04 10 Officers to Set Example—All officers of the Division, union, local conference/mission/field entities, and institutions/agencies/services shall set an example in economy by minimising expenses without compromising the mission of the organisation. This example will inspire confidence in the integrity of the organisation.

S 04 15 Employ Church Members—In the employment of persons in every capacity, whether in the office or otherwise, great diligence shall be used to employ only persons who are members of the Church, in regular standing, and who exert a positive influence along spiritual lines for the up-building of the work.

S 04 20 Responsibility—The chief responsibility for the day-to-day operation of an organisation rests with the officers of the organisation. However, the board or controlling board or executive committee represents the constituency concerned and is also responsible for the financial viability of the organisation.

S 04 25 Responsibility for Internal Controls—The controlling board or executive committee is responsible for ensuring internal controls which are adequate to the size and complexity of the organisation. Those internal controls are to be designed, documented, implemented, communicated, and monitored. The effectiveness of internal controls will be determined to a large degree by the tone set by those entrusted with leadership and governance of the organisation.

S 04 30 Objectives and design of Internal Controls—The objectives of internal controls in an organisation are to provide reasonable assurance regarding the reliability of financial reporting, the effectiveness and efficiency of operations, the compliance with laws and regulations including denominational policies, the assurance that resources are used in accordance with approved purposes, and the protection of organisational assets from misuse.

1. In designing internal controls, the organisation’s controlling board or

executive committee shall analyse and identify risks that could result in financial statements that do not reflect the actual position of the organisation.

2. The controlling board or executive committee shall establish policies and procedures to address adequate segregation of duties, proper authorisation of transactions and activities, adequate documents and records, physical control over assets and records, and independent checks on performance.

3. The controlling board or executive committee shall oversee management's documentation and communication of internal controls for the organisation.

S 04 35 Monitoring Internal Controls—Internal controls must be monitored to determine their continued effectiveness. The controlling board or executive committee shall have an ongoing process to assess the effectiveness of internal controls and correct deficiencies.

S 09 Financial Planning and Budgeting Process

S 09 05 Mission Driven Resource Allocation—Each organisation shall have a mission driven, broadly based consultative financial planning and budgeting process with a committee structure that can give detailed review to the ongoing financial planning and budgeting for the organisation. In some cases, this may take the form of a finance committee. In other cases, the organisation may be small enough that the process is handled directly by the governing body involved. If the organisation's controlling board or executive committee establishes a separate committee for this purpose, the responsibilities should include reviewing budget requests and the review of the annual operating budget as well as a review of the organisation's financial position as reflected in the financial statements. The approval of the budget and the review of the organisation's financial statements would then be recommended to the controlling board or executive committee for action. In order to build a strong constituency, all conference/missions/fields are encouraged to prioritise mission in the budgeting process.

S 09 10 Budgets—All denominational organisations shall use an annual budget which is approved by the controlling board or executive committee. It shall be the responsibility of the officers of each level of organisation to require organisations located within their territory to use a budget. Guidelines for preparing budgets are included in the *Seventh-day Adventist Accounting Manual*.

S 09 15 Funding of Activities—All activities of a recurring nature for which denominational financial support is involved shall be funded without incurring debt. All funds necessary for such operations shall be in hand or provision shall be made before commencement of activities.

S 09 20 Operating Deficits—When an organisation's monthly or yearly financial statements indicate operating deficits, the controlling board or executive committee shall take immediate steps to address the situation. An organisation closing a financial year with an operating deficit, shall make provision for recovering the deficits when preparing budgets for the ensuing years, if the available working capital is less than 100 per cent of the amount recommended by policy and liquid assets are inadequate to cover current liabilities and allocated funds. When such conditions exist, the higher organisations shall give counsel in resolving the difficulty.

S 09 25 Financial Obligations—The Division shall not be held financially responsible for any obligations it has not assumed by vote of its controlling board or executive committee. This is also the general policy for unions, local conferences/ missions/fields, and other organisations and institutions of the denomination.

S 09 30 Inter-Organisational Accounts—Organisations are expected to reconcile and settle their inter-organisational accounts on a monthly basis.

S 09 35 Authorisation for Appropriations—In the use of General Conference, Division, union, and local conference/mission/field funds, appropriations to subsidiary organisations shall be made only by specific action of the controlling board or executive committee.

S 14 Financial Borrowing

S 14 05 Borrowing Guidelines—As far as is possible, financial activities should be conducted without the use of borrowing. The preferred method for operating and/or financing capital projects is cash with a less preferred method being the use of funds from current revenue. The controlling board or executive committee of the union/attached field shall develop a policy, in consultation with the Division Treasury, outlining the approval process for using borrowing as an option for conducting financial activities. The policy must be developed and implemented within the following guidelines and limitations:

1. The Division shall not be held financially responsible for any obligation it has not assumed by vote of its controlling board or executive committee. This is also the general policy for unions, local conferences/ missions/fields, and other organisations and institutions of the denomination (see S 09 25).
2. No organisation shall borrow for the purpose of reinvesting.
3. No organisation shall borrow for the purpose of relending, except through a denominational revolving fund or similar method as approved by the Division Executive Committee.
4. No organisation shall borrow for the purpose of financing current operations, except in extremely unusual circumstances and in consultation with the next higher organisation. Such borrowing shall not extend beyond one financial year. In cases where an organisation seeks to obtain a line of credit to address seasonal operational cash flow issues, the line of credit, when permitted, must be approved by the controlling board or executive committee of the organisation in consultation with the next higher organisation. An annual report regarding the use of such loans or lines of credit must be made to the controlling board or executive committee and to the next higher organisation.
5. Division institutions, in their policy and borrowing, may allow for capital projects to be considered. The policy must include borrowing guidelines that

clearly define the maximum percentage of borrowing on any project and cash requirements before commencement of the project. The policy may set a single maximum percentage of borrowing for all capital projects or may outline different maximums for different categories of capital projects (i.e. conference offices, employee housing, primary schools, secondary schools, universities, dormitories, hospitals, churches, etc.). The maximum percentage of borrowing, if permitted, should take into consideration the difference between revenue-generating projects, projects that will be funded from ongoing operations, and projects that must be funded from donations or contributions.

6. Under normal circumstances, no organisation shall pledge as collateral or encumber the assets owned or used by another organisation for any loan. In those unusual circumstances where it is to the advantage of the organisation to pledge as collateral or encumber the assets of another organisation, the controlling board or executive committee of the organisation whose assets will be pledged or encumbered must vote to authorise such pledges and encumbrances.

7. At the time new borrowing is proposed, full disclosure of current and outstanding loans must be presented to the controlling board or executive committee as part of the proposal. This full disclosure of all outstanding loans must include loans that the organisation is proposing to borrow, has guaranteed, or co-signed. Further, the full disclosure shall indicate how the proposed loan when combined with any outstanding, guaranteed, or co-signed loans relates to any borrowing limits established by the Division.

8. On an annual basis, the Treasurer/Chief Financial Officer of each organisation shall present a report to the controlling board or executive committee with a copy to the next higher organisation that enumerates all outstanding, guaranteed, or co-signed loans with a related list identifying all assets pledged as collateral or encumbered.

S 15 Capital Projects Approval and Financing

S 15 10 Capital Project Approval and Financing—1. *Local Union Capital Project Policy*—In each union a capital project approval and financing policy shall be developed by the union committee. This policy shall indicate the conditions under which projects shall be approved by conference/mission committees without union approval and also set forth requirements for documentation of title, plans, methods and conditions under which the approval of the union committee is required within the terms of the overall Division policy.

2. *Division Project Approval/Review*—Unions are required to submit the following capital projects to the Division Administrative Committee for review, counsel and approval prior to the beginning of construction:

a. Capital projects that when completed, involve borrowing of more than 15 times the annual local basic wage factor.

b. Capital projects that when completed, involve expenditures of more than 30 times the annual local basic wage factor.

3. *Church and School Capital Projects*—a. *Counsel from Higher Organisations.* Churches and schools contemplating either the purchase or the erection of church or school buildings shall be cautioned against undertaking financial obligations that would embarrass the membership. When for any reason a congregation decides to buy or build a new church home, its building should not be vacated or disposed of unless provision has been made to house the congregation until the new building is erected or purchased. In all building undertakings, local and union committees shall give careful counsel in each case, taking into consideration the size of the congregation or constituency, its financial strength and the location of the property.

b. *Cash Requirement*—In the purchase or building of church and school facilities, in no case shall commitments be made or building operations be commenced until 50 per cent of the entire cost of the building, including initial furnishings, is in hand in cash or in readily convertible assets, and satisfactory provision has been made for securing the remaining 50 per cent. In the case of construction, the work shall proceed and obligations shall be incurred only as funds are available. Land that has been paid for may be considered at cost as part of the required 50 per cent of the total project.

c. *Borrowed Fund*—In special cases where in the judgement of the controlling committee it is deemed advisable, a church or school may be authorised to borrow up to 50 per cent of the cost of completing the current stage of its capital project, provided a definite programme for the liquidation of the loan has been approved and underwritten by the local and union conference/missions concerned and approved by the controlling committee.

d. *Construction in Stages*—In cases in which it is practical to occupy church and school buildings before the contemplated project is entirely completed, authorisation mey be given for the work of construction to be undertaken in stages, provided the project has been underwritten by the local and union committees with the provision that construction will not proceed except as funds are available.

4. *Institutional Building Projects*—a. *Cash Requirement*—For institutional and conference building projects and improvements, the full amount of funds needed shall be in hand before any commitments are entered into. In cases of extreme necessity, building operations may be started when 50 per cent of the entire cost of the building is in hand in cash and satisfactory provision has been made for securing the remaining 50 per cent. In the case of construction, the work shall proceed and obligations shall be incurred only as funds are available. In all cases where the 50 per cent is not in hand, this amount shall be underwritten by the local and union conference/missions concerned and the plan approved by the controlling committee.

b. *Multiple Units*—In the case of a building or expansion project involving one or more units in one of the larger institutions, the budget and plans for the building programme for each unit shall be submitted to the controlling committees for approval before commitments are made. Such budgets shall provide for the full amount of funds required to complete the project by cas in hand or by yearly budgetary appropriations underwritten by the local and union conferences/missions concerned. Construction shall proceed and obligations shall be incurred only as funds are available.

c. *Cost Estimates*—Cost estimates from the project's architect concerning contemplated building or improvement projects shall be submitted for approval by the appropriate controlling committee. The estimated operating expenses of the new facility shall also be submitted to the next higher organisation.

d. *Payment of Existing Indebtedness*—Any plans for institutional expansion shall include provision for the payment of any existing indebtedness within the period of time over which the building or expansion programme is financed.

5. *Materials*—While avoiding unnecessary expense, as far as possible, it is recommended that in all construction work good and substantial materials be used in order that the denominational buildings may be as permanent as possible and the upkeep expense be reduced to a minimum. Due consideration and care shall be given in all denominational buildings to guard against the invasion of termites and other destructive insects.

6. *Alterations and Additions*—No alterations or additions whatever shall be made to any permanent building without the advice and consent of the controlling committee. The repair of church buildings shall be the responsibility of the local church.

7. *Arrangement of Plot Plan*—It shall be the duty of the local conference/mission committee, in counsel with the union officers, to carefully plot each conference/mission property, outlining plans for a completed unit. These plots shall be approved by the union committee and shall be strictly followed by those responsible for the development of the facility. No person shall erect even a temporary building upon conference/mission premises withou the consent of the controlling committee.

8. *Repairs*—In each union, those responsible shall use special care to make sure that denominationally-owned buildings within their territory are kept in proper repair in order that depreciation in value may be reduced to a minimum. Care should be taken to properly protect all exposed woodwork, metal surfaces and roofs.

S 15 20 Emergency Loans—A union conference/mission, conference/mission/field, or institution may not borrow or authorise the borrowing of money to meet emergency situations without the approval of the Division.

S 19 Financial Reports

S 19 05 Distribution—In order that controlling boards, executive committees, and responsible officers may be kept fully informed concerning the operations under their control, monthly financial statements should be furnished to the members of the responsible boards and committees and to the officers of the next higher organisation. Financial statements of institutions shall be furnished also to the officers of the higher organisations concerned. Monthly statements of the unions/attached fields and Division institutions shall be sent to the Division Treasury. To achieve this objective:

1. At least nine of the twelve monthly financial reports must be provided to the organisation's administrative officers.
2. At least four of the twelve monthly financial reports, reasonably spaced throughout the year, must be provided to the controlling board, executive committee, and officers of the next higher organisation.
3. In the case of relatively inactive organisations, quarterly financial reports are required (instead of monthly).

S 19 10 Analysis—Monthly financial reports showing the actual operating expenses and budgetary provision to date shall be prepared and studied by the organisation's administrative officers. Controlling boards and executive committees should compare these statements with the approved budget and be prepared to act with the officers in increasing income and/or decreasing expenditures as may be necessary.

S 19 15 Presentation to Committees—When presenting financial reports in the accounting format generally accepted by the church, the treasurer/chief financial officer should use appropriate visual aids and explain all technical terms used to make sure the report is understandable to members with limited accounting background. Financial reports are to be comparative and include the following:

1. Statement of Financial Position
2. Statement of Financial Activities
3. Statement of Cash Flows
4. Footnote disclosures which are an integral part of the report
5. Other supplemental information, such as schedules showing further details of assets, liabilities, income, expenditures, and certain percentages or ratios.
6. If the financial report has been audited, the auditor's opinion should accompany the report.

S 19 20 Presentation to Constituency Sessions—Reports to the constituency sessions of organisations shall include audited comparative financial statements, as enumerated in S 19 15, showing each of the years in the reporting period. If it is not possible to have audited comparative financial statements prepared for the session's reporting period, each year's financial statement, with the accompanying auditor's report, shall be presented separately. Any financial reports presented at constituency sessions that are not accompanied by an opinion from the auditor should clearly indicate that it is non-audited information.

S 19 25 Statistical Reports and Financial Statements—The annual statistical report of the Division, including the work of all unions/conferences/missions/attached fields, and institutions in its territory, as well as a report of languages in which denominational activities are conducted, should reach the General Conference Office of Archives, Statistics, and Research not later than March 31.

One copy of the audited financial statement of each denominational organisation shall be sent by General Conference Auditing Service (or the chief operating officer, in cases of organisations audited by other than the General Conference Auditing Service) to the General Conference Office of Archives, Statistics, and Research as outlined below. This statement shall include all supporting schedules and signed auditor's opinions and shall be accompanied by a summary on Form F-49 no later than one month after the audit report has been released.

S 19 30 Accounting Manuals Authority—Financial reports shall be prepared in accordance with applicable denominational accounting manuals prepared by the General Conference Treasury. All organisations shall adhere to the appropriate current denominational accounting manual as follows:

- *International Accounting Manual* (effective prior to 2012)
- *Seventh-day Adventist Accounting Manual* (effective January 1, 2012)

1. When country-specific accounting standards require a financial reporting framework that differs from the denomination's accounting manual, those country-specific standards take precedence and organisations are not required to maintain multiple sets of accounting records to accommodate both country-specific standards and the accounting manual.

2. Entities are expected to comply with all relevant laws and regulations that require reporting of financial information to government agencies, which may be required to be in formats other than that used for general-use financial reporting. It is understood that such government-mandated reporting is in addition to the required general-use financial reporting to the organisation's controlling board or executive committee.

3. Any other exceptions to application of the accounting manual shall be approved by General Conference Treasury.

S 24 Financial Ratios

S 24 05 Use of Ratios—Financial ratios are useful indicators of an organisation's performance and financial situation. In order to have a basic measure of financial health, the Church has placed emphasis on comparing the actual working capital of an organisation and amount of liquid assets on hand to a pre-determined recommendation for various types of organisations. There are several other types of ratios that could prove useful for organisations in their process of performing financial statement analysis. Organisations are encouraged to determine and apply any relevant ratio that would be beneficial to that process. Financial ratios can be grouped into at least four categories:

1. Liquidity Ratios—Provides information about an organisation's ability to meet its short term financial obligation.

2. Asset Turnover Ratios—Provides information on how efficiently an organisation uses its assets.

3. Financial Leverage Ratios—Provides information about the long-term solvency of the organisation.

4. Profitability Ratios—Provides information regarding the success of the organisation at generating operating gains.

S 24 10 Working Capital—In order that adequate financial resources will be available for the sound and effective operation of all organisations, the following provisions are based on what has been considered historically adequate for denominational entities and are outlined below:

1. Working Capital Definition—Working Capital shall be defined as the amount of current assets in excess of current liabilities.

2. Formulas—The recommended working capital of organisations shall be as follows:

a. Division—30 per cent of the latest fiscal year's total operating expense or for interim statements, the latest 12 month actual operating expense plus 15 per cent of operating appropriations to subsidiary organisations for the latest complete fiscal year, plus allocated funds.

b. Union Conferences/Missions—30 per cent of the latest fiscal year's total operating expense, or for interim statements, the latest 12 month actual operating expense, plus allocated funds.

c. Local Conferences/Missions/Fields—20 per cent of the latest fiscal year's total operating expenses, or for interim statements, the latest 12 month actual operating expense, plus allocated funds.

d. Conference/Mission/Field Associations/Corporations—10 per cent of the current fund assets; and further, that one half of such working capital be maintained in liquid assets.

e. Home Health Education Service—Equivalent of net accounts receivable, merchandise inventories, and allocated net worth (reserves) based on the balance sheet for the latest complete fiscal year.

f. Adventist Book Centres—Equivalent of net accounts receivable, inventories, and allocated net worth (reserves).

g. Universities, Colleges, and Junior Colleges—20 per cent of the operating expense, or for interim statements, the latest 12 month actual operating expense, of the latest complete fiscal year, plus allocated net worth (reserves).

h. Academies—15 per cent of the operating expense of the latest complete fiscal year, or for interim statements, the latest 12 month actual operating expense.

i. Health Care Institutions—20 per cent of the operating expense of the latest complete fiscal year, or for interim statements, the latest 12 month actual operating expense, plus allocated net worth (reserves).

j. Publishing Houses—Equivalent of net accounts receivable (excluding receivables from higher organisations), inventories and allocated net worth (reserves) based on the balance sheet for the latest complete fiscal year.

k. Adventist Media Centres—20 per cent of annual operating expense based on the Income Statement for the latest complete fiscal or for interim statements, the latest 12 month actual operating expense.

S 24 15 Liquidity—In order that adequate cash and cash equivalents will be available for meeting short-term financial obligations, the following provisions are based on what has been considered historically adequate for denominational entities and are outlined below:

1. Liquid Assets—Liquid assets equivalent to the current liabilities and certain allocated funds identified in the specific accounting manuals shall be maintained in the following:

   a. Cash
   b. S 85 35, S 85 40 items
   c. General Conference or other authorised unitised investment funds
   d. Accounts receivable from the next higher organisation.

2. Division Liquidity Formula—The liquidity formula to be used by the Division shall be: Cash and Banks plus Securities and Investments divided by the total of current liabilities and gross allocated funds.

3. Exception to Liquidity Requirement—In unusual situations such as excessive and rampant inflation or highly unstable and rapidly devaluing currencies, substantial loss can result from holding cash or similar liquid assets in excess of basic minimal levels required for operating. Under these exceptional circumstances, and in counsel with and subject to approval from the Division the strict liquidity provisions outlined in this policy may be temporarily suspended.

4. Allocations—Excess working capital at the end of the year may be transferred to allocated funds for specific purposes by action of the controlling board or executive committee, taking into consideration its source, whether tithe or non-tithe.

S 26 Division Funds

S 26 05 Sources of Funds—1. The sources and plan of disbursement and handling of Division funds are defined by the General Conference Working Policy.

2. The funds the Division receives are as follows:

   a. Such percentage of the regular tithe of unions/conferences/missions/fields and attached fields as defined in policy and determined by the Division Committee.

   b. Appropriations from the General Conference of Seventh-day Adventists.

   c. Special donations.

   d. Other income.

S 26 15 Funds May be Held by the Division—Special appropriations to unions/attached fields may be held in trust by the Division until the funds are needed for the project concerned.

S 29 Financial Audits

S 29 05 Annual Audits—Each organisation shall prepare its financial statements to be audited annually or receive some other level of service as approved by the General Conference Executive Committee.

S 29 10 Preparation for Annual Audit—The audit process is more efficient when an organisation prepares well in advance. In preparing for an audit, the organisation shall do the following:

1. Complete the recording of financial transactions and prepare the corresponding statements of financial position, financial activities, cash flows, and relevant footnote disclosures no later than 90 days after the end of the organisation's financial year. The financial statements are to be prepared based on the *Seventh-day Adventist Accounting Manual*.

2. The principal officers of the organisation shall sign an engagement letter with the auditor which enumerates the mutual expectations and responsibilities, the scope and timing of the work to be performed, and the associated fees.

3. The organisation should provide the supporting material requested by the auditor in electronic form, wherever possible.

4. The principal officers, as required by S 90, shall furnish in writing to the auditor a set of assertions regarding the organisation's compliance with denominational core policies.

S 29 15 Participation on the Annual Audit—The audit process is a collaborative effort on the part of the auditor and management of the organisation. Management shall make the appropriate arrangements to be available during the course of the engagement and be responsive to requests made by the auditor. If at the close of scheduled audit procedures, management has not provided all the information requested by the auditor, the auditor shall inform management of the audit status and request a written engagement extension letter. At the close of the engagement, an exit interview will be conducted. The auditor shall supply a draft of the audit report for management to review before it is finalised. Since the financial statements are the responsibility of the organisation, it is important for them to be reviewed and understood.

S 29 20 Presentation of Audit Reports—Within 60 days of the close of the audit engagement, when all outstanding issues have been resolved, the auditor will provide to the management of the organisation and the chair of the Audit Committee the audit report which includes an opinion on the financial statements, a report on compliance with the core policies of the denomination, and an audit communication letter which includes any significant deficiencies identified in internal controls. Upon receipt of this report, the management of an organisation shall do the following:

1. Provide to the Audit Committee a copy of the audit report along with their response to any findings within 60 days of receiving the report from the auditor.

2. Provide to the auditor a copy of their response to any findings they have shared with the Audit Committee.

S 34 Financial Oversight Committees

S 34 05 Audit Committee (formerly referred to as Financial Audit Review Committee)—The controlling board or executive committee of each organisation shall establish a sub-committee known as the Audit Committee to meet at least annually and discharge the functions as outlined in the charter (terms of reference) provided to promote transparency and full disclosure on audit matters. These meetings may be held in person or via conference call where such facilities are available and if considered appropriate.

1. *Composition*—The Audit Committee shall consist of at least three members who are typically members of the controlling board or executive committee, and are known to possess the following characteristics:

a. Independent—Not employed by the organisation being audited or reviewed and, if possible, not denominationally employed. The member should not have any existing financial, family, or personal ties to the management of the organisation.

b. Competent—Has proven knowledge in financial matters, including the ability to read and understand financial statements. At a minimum, one of the members should be considered a financial expert who understands the financial reporting framework in their country, is able to apply that framework to accounting matters, has experience in preparing and analysing financial statements, understands internal controls, and understands the function of the Audit Committee.

c. Confident—Not afraid to ask relevant and probing questions.

2. *Charter (Terms of Reference)*—The following represents the expected responsibilities of the Audit Committee to be fulfilled each year. This charter should represent a working document that guides in managing the agenda of the committee.

a. Recommend to the controlling board or executive committee the selection of the auditor in those approved special circumstances when General Conference Auditing Service is not involved.

b. Agree upon the fees and scope of the audit engagement.

c. Maintain a direct and open line of communication with the auditor.

d. Receive and discuss with the auditor the audited financial statement, audit communication letter, and response from management.

e. Develop and review with management adequate internal controls.

f. Develop and review procedures for the receipt and resolution of confidential complaints regarding any unethical business practice.

g. Discuss with management their assertions made regarding compliance with core denominational working policies related to financial matters.

h. Identify, evaluate, and respond to any potential business and fraud risks.

i. Understand emerging trends in accounting standards and their impact on financial reporting for the organisation.

j. Review any serious difficulties encountered during the course of the audit.

k. Provide oversight for the conflict of interest policy and address risks associated with any conflicts identified.

l. Present a report to the controlling board or executive committee at its next scheduled meeting regarding the results of the audit engagement, operational effectiveness of internal control, compliance with core policies, and potential business risks. This report should be accompanied by recommendations for the controlling board or executive committee to consider.

m. Hold an executive session where members of the management team, who may be attending as invitees, have been excused.

3. *Invitation to Auditor*—The auditor shall be invited to attend the Audit Committee meeting at which the audit reports and audit communication letter are studied, and the controlling board or executive committee meeting at which the Audit Committee makes its recommendations, if any. Under circumstances where legal requirements permit and conferencing facilities are deemed satisfactory to the client and the auditor, the auditor may choose to attend, via teleconference or videoconference, the meetings mentioned above. Although it would be normal and expected for the auditor to attend the Audit Committee in person or via other conference facilities, attendance by the auditor at such meetings is not mandatory.

4. *Representatives from Higher Organisations*—If there are official representatives from the higher organisation present when the Audit Committee is being convened, they would be considered invitees with voice but no vote.

5. *Copy of Recommendations*—A copy of the recommendations of the Audit Committee, as approved by the controlling board or executive committee, shall be sent to the auditor and to appropriate officers of higher organisations.

S 34 10 Compensation Review Committee (formerly referred to as Salary Audit Committee)—The controlling board or executive committee of each organisation shall establish a sub-committee known as a compensation review committee so it can be fully informed about compensation practices within the organisation and ensure compliance with policies. This committee shall meet at least annually to discharge the functions as outlined in the charter provided to promote transparency and full disclosure on compensation matters. These meetings may be held in person or via conference call where such facilities are available and if considered appropriate.

1. *Composition*—The compensation review committee should be comprised as follows:

a. Each member should typically be a member of the controlling board or executive committee.

b. A majority should also be of persons not employed by the organisation, should include laypersons, and any official representatives present from higher organisations.

c. The chairperson shall be a representative from the higher organisation or a member of the controlling board or executive committee who is not an employee of the organisation.

2. *Charter (Terms of Reference)*—The following represents the expected responsibilities of a compensation review committee to be fulfilled each year. This charter should represent a working document that guides in managing the agenda of the committee.

a. Review at a minimum the compensation and allowances/benefits paid to all officers and other board-appointed personnel during the previous year and determine its reasonableness and compliance with compensation policies of the denomination.

b. Ask for and receive clarification on unusual items of compensation or allowance/benefits paid during the previous year.

c. Review and report on the personal accounts/notes receivable balances that exceed one month of salary.

d. Review and report on travel advances that are outstanding for more than three months for each traveling staff.

e. Review and report on the travel expenses as compared to the approved budget for each traveling staff.

f. Review and report on the compensation, personal accounts, and travel advances for officers of subsidiary mission organisations.

g. To facilitate a meaningful review, the committee shall receive information in a spreadsheet format with separate columns for base salary, bonuses or contracted compensation, and for each allowance/benefit identifiable by individual (other presentation formats which provide similar details are acceptable). All compensation or allowance/benefits are to be included. However, no information shall be included which details any health care assistance by employee name.

h. If the controlling board or executive committee so delegates, set the individual salary percentages/rates for the next financial year.

i. Provide a statement to the controlling board or executive committee that indicates the compensation review committee has fulfilled the expectations of its charter along with any recommendations relating to compensation matters which need to be addressed.

j. For organisations that follow the provisions of Y 05 05, paragraph 10, "Variations for Commercial Business Organisations," provide a complete report to the controlling board or executive committee of the actual salary and allowances/benefits (detailed separately including retirement contributions identifiable on an individual basis, value of insurance policies, etc.) paid to officers of the organisation.

S 34 15 Financial Statement Review Committee—The Division, unions, attached fields and Division institutions shall each establish a sub-committee known as a financial statement review committee in order to be fully informed about the financial health of their respective subsidiary and affiliated organisations. This committee shall meet at least annually and discharge the functions as outlined in the charter provided to promote proactive responses to adverse financial trends. These meetings may be held in person or via conference call where such facilities are available and if considered appropriate.

1. *Composition*—The financial statement review committee should be comprised as follows:

a. Members of the respective Division, union, attached fields and Division institution treasury teams.

b. The committee shall be chaired by the Treasurer/Chief Financial Officer or designee.

2. *Charter (Terms of Reference)*—The following represents the expected responsibilities of a financial statement review committee to be fulfilled each year. This charter should represent a working document that guides in managing the agenda of the committee.

a. Review audited or unaudited financial statements from subsidiary and affiliated organisations.

b. Identify adverse financial trends and discuss with the management team of that organisation.

c. Evaluate the working capital and liquidity status of each organisation and discuss with the management team plans to achieve and maintain recommended levels when deficiencies are noted.

d. Submit minutes of meeting to the Treasurer/Chief Financial Officer of the next higher organisation to provide awareness of significant issues. In the case of the Division, those minutes should be provided to the Division Officers.

S 34 20 Financial Survey Commissions—The Division, union, attached fields and Division institutions are advised to appoint financial survey commissions to make a periodic on-site review of subsidiary and affiliated organisations, especially those that are experiencing serious financial difficulties. The commission, depending on the type of organisation being reviewed, should consist of enough members to perform the survey and who can provide helpful expertise. The commission shall make a careful study of the financial position of the organisations under review, study the relationship between office administrative expenditures and field/programme expenditures in conferences/missions/fields, review the effectiveness of employees, and make recommendations to the controlling boards or executive committees.

S 37 General Conference Funds

S 37 05 Sources of Funds—1. The sources and plan of disbursement and handling of General Conference funds are defined in Articles XVII, XIX, and XX of the Bylaws.

2. The funds the General Conference receives are the following:

a. Ten per cent of the tithe receipts of the union conferences/missions/fields and of the local conferences/missions/fields not included in union conferences/missions/fields.

b. Regular mission offerings.

c. Special donations.

d. Such percentage of the regular tithe of local conferences/missions/fields as provided for by policy.

S 37 10 Remittances to General Conference—Tithe and mission offerings are reported to the General Conference treasury each month by the Division Treasurer/Chief Financial Officer. The reports and remittances from the Division shall reach the Treasurer/Chief Financial Officer's office not later than the twentieth of the second succeeding month. The reports and remittances from the unions/attached fields shall reach the Division Treasurer/Chief Financial Officer's office not later than the tenth of the second succeeding month.

S 37 15 Funds May Be Held by General Conference—Special appropriations to divisions may be held in trust by the General Conference until the funds are needed for the project concerned.

S 38 Division Budget Preparation and Implementation

S 38 05 Treasury—It is a function of Treasury to receive all budget requests, including those for appropriations. Treasury is also responsible in co-operation with the other branches of administration, to prepare specific budget proposals.

S 38 10 Budget Preparation—*Budget Process*—The budget process which begins in Treasury must be reviewed and adjusted as necessary by the administration, as well as other appropriate committees.

S 38 15 Approval—The budget is approved by the Division Executive Committee at the time of its principal annual meeting.

S 38 20 Implementation—The budget is to serve as the primary instrument of financial authorisation and control for every organisation. The Treasurer/Chief Financial Officer is to provide timely financial information to his/her fellow officers and to the Division Executive Committee, comparing actual operating results with budgeted projections. The administration is accountable to the constituency for budget implementation, taking appropriate actions to best ensure the financial stability of the organisation, using the budget as a guide.

S 39 General Conference Appropriations

S 39 05 Appropriations—1. The Division shall submit a list of requests for appropriations to the General Conference Treasury by August 1 each year. Requests are to be accompanied by such supporting reports and documentation as called for by the General Conference.

2. Appropriations shall be made at Annual Councils, when all needs and interests can be represented and compared, and an equitable distribution of funds

can be made. The General Conference Executive Committee is not able, therefore, to give consideration to requests for additional appropriations between sessions of the Annual Council. Emergencies should be met, as far as possible, by Division, or the institution. However, in cases of special emergency the General Conference or other organisations concerned have the discretion of drawing upon their annual emergency fund.

S 40 Planned Giving and Trust Services

S 40 05 Deferred Gifts—1. *Spirit of Prophecy Counsel*— 'How much owest thou unto my Lord?' Luke 16:5. . . . All that we have is from God. He lays His hand upon our possessions, saying, 'I am the rightful owner of the whole universe; these are My goods.' . . . God is testing every soul that claims to believe in Him. . . The Lord has given men His goods upon which to trade. He has made them His stewards, and has placed in their possession money, houses, and lands."—*Testimonies*, vol 9, p 245.

2. *Present Gifts*—Changing financial and economic conditions throughout the world are causing church members great concern as to their property and investments. Considering the shortness of time and the counsel of the Spirit of Prophecy, church leaders encourage members to make liberal gifts of their means for immediate use in the work.

3. *Deferred Gifts*—In addition to making large immediate contributions of their means while living, our people should favourably consider deferred gifts (including charitable gift annuity agreements and trust agreements, as well as legally drawn wills) in the disposition of their property as they endeavour to secure it to the cause of God.

S 40 10 Gift Annuity Agreements—1. *Approved Organisations*—Division, union and conference/mission/field associations or corporations and legally organised institutions may enter into gift annuity agreements.

2. *Rate Schedules*—Gift annuity agreement rate schedules are provided by the Division, to officers of union and conferences/missions/fields and institutions, and shall be strictly adhered to by all issuing organisations.

3. *Accounting*—Gift annuity agreements shall be accounted for by generally accepted accounting principles for such agreements as set forth in accepted fund accounting manuals. The organisation shall maintain a fund balance for each annuity which shall be equal to the difference between the original annuity amount and any applicable liabilities for each annuity (e.g. net present value of future annuity payments, any liabilities to other denominational organisations, and deferred income). Where the issuing organisation is the intended donee, when annuity earnings exceed the required annual payments, and when the annuity fund balance of each annuity exceeds the above required amount, these excess earnings may be used by the issuing organisation. In all cases fund balances shall not be less than required by applicable law. Where an organisation (managing organisation) manages/administers an annuity for the benefit of some other intended donee(s) (benefitting organisation(s)), excess earnings, which

represent amounts held by the managing organisation, in excess of the original amount of the annuity may be transferred to any benefitting organisation(s) on a pro rata basis. The provisions in this paragraph for the use of excess earnings from gift annuities do not apply to deferred payment gift annuities.

4. *Signatures*—The gift annuity agreements are made valid upon the signature of the duly elected officers of the organisations writing the agreements.

5. *Applicable Laws*—Before conferences/missions/fields write cash Gift Annuity agreements or write annuities to be funded by assets other than cash, the conference/mission/field association personnel shall obtain counsel from the Union Planned Giving and Trust Services Director or Union Conference officers regarding applicable laws and the capability of the conference/ mission/field to accept and administer the assets to be transferred.

S 40 15 Trust Agreements—In addition to outright gifts and the provisions made for gift annuity agreements, the Division, union and conference/mission associations or corporations and legally organised institutions are authorised to accept funds or property in trust, subject to the following conditions:

1. *Maximum Interest Rates*—The maximum specified rate payable to the trustor used in revocable trust agreements shall not exceed the maximum interest paid by the union revolving fund serving that union territory. Division institutions shall use the rate paid within the union in which the institution is located. The net amount paid in irrevocable trust agreements shall not exceed what the corpus of the trust actually earns except as specifically provided for under the terms required by law in the writing of a unitrust or annuity trust, or charitable gift annuity.

2. *Approval of Agreements*—All agreements shall be specifically authorised by the board of trustees concerned; however, this does not preclude a board of trustees from designating one of its subcommittees to handle this matter on a continuing basis.

3. *Investments in Trusts*—An organisation or institution acting as trustee shall not invest in any property accepted in trust, give any guarantee based on the security of the trust, or lend any funds to a trustor. Although it is not recommended as a routine procedure, under extenuating circumstances the organisation or institution may, from its own funds, make loans or advances of nominal amounts, fully secured by trust assets, which may be necessary to establish the trust or cover an emergency situation involving the trust assets. However, the organisation or institution as trustee of an irrevocable trust may secure a loan from a third-party lender for purposes of the trust based on the security thereof.

4. *Legal Counsel*—Where trust agreements are entered into by union or conference/mission corporations or institutions, such trust agreements are to be written only upon competent local legal counsel to make certain that they are in harmony with the statutes of the jurisdiction in which executed.

5. *Denominational Benefit*—Organisations shall write trust agreements only when the denomination will benefit substantially at maturity from such

agreements, with the nature of the assets, size of the estate, cost of servicing the trust, and other factors being considered in determining the feasibility of entering into such agreements.

S 40 20 Wills—While the writing of gift annuity agreements and trust agreements is encouraged, legally drawn wills should also be considered when making gifts to denominational organisations. As a general rule, such wills should be drafted by the donor's attorney.

S 40 25 Recording Maturity of Deferred Giving Instruments—A record should be made in the legal corporation minutes of the maturity of all deferred giving instruments and the distribution made to beneficiaries.

S 40 30 Administrator, Trustee, and Executor of Wills—Fees—A denominational employee who serves as administrator, trustee, or executor of wills, as a result of denominational employment in any capacity, shall not retain fees received for this type of service for personal benefit. Upon completion of term of office or denominational employment, the responsibility as administrator, trustee, or executor of wills shall pass to the successor.

S 40 35 Inter-organisational Planned Giving and Trust Services Guidelines—The following inter-organisational Planned Giving and Trust Services Guidelines shall govern all organisations rendering Planned Giving and Trust Services:

1. *Definition of Planned Giving and Trust Services*—The definition of Planned Giving and Trust Services shall include wills, trust agreements, charitable gift annuities, unitrusts, annuity trusts, life income agreements, and life care agreements.
2. *Conferences/Missions/Fields*—It is recognised that conferences/ missions have the right to contact all persons in their territories.
3. *Referrals*—All referrals will be followed up in the regular contact procedures.
4. *Alumni*—Conferences/missions/fields and institutions shall unite in contacting alumni of educational institutions, except where the person involved does not wish this to be done or when there is a working arrangement between the conference/mission/field and the institution.
5. *Institutions*—Educational and other institutions may operate Planned Giving and Trust Services programmes under specific written agreements with union conferences/missions under whatever terms are approved by the controlling committees and boards.
6. *Promotional Materials*—Organisations have the privilege of sending promotional materials to the members in the territory they serve.
7. *Non-Seventh-day Adventists*—No restrictions to be placed on contacting non-Seventh-day Adventists; however, discretion should be used to avoid duplication of appeal by more than one denominational organisation.
8. *Clarification of Membership Status*—When it is not known whether the persons are Seventh-day Adventists, the conferences/ missions/fields concerned are to be contacted to ascertain this information. If the person is found to be a

church member, contact is to be made in association with the conference/mission/field representative, provided this course is acceptable to the person involved.

9. *Approaches to Higher Organisation*—If a church member contacts the Division or a union conference/mission, the organisation will call the attention of the member to the possibility of the conference/mission/field handling the matter; however, if the person still desires that the Division or union conference/mission serve as trustee, this will be respected.

10. *Church Members in Other Conferences/Missions/Fields*—Should a church member residing and holding membership in one conference/ mission/field desire to enter into an agreement with another conference/ mission/field, the same provisions will apply as in the preceding paragraph.

11. *Co-operation*—Conferences/missions/fields and institutions shall co-operate in a spirit of good will and understanding.

12. *Alumni of Educational Institutions*—Educational institutions have the right to approach all their alumni directly relative to current giving.

S 45 Borrowing of Funds From Church Members

S 45 05 Borrowing of Funds From Church Members—1. *Approach Methods*—Denominational organisations shall not solicit loans from church members for any purpose except through denominationally recognised channels such as the Planned Giving and Trust Services programme and the Union Revolving Fund Plan.

2. *Interest Rate*—In unusual circumstances when funds are offered to an organisation by a church member, the interest rate shall not exceed the rate paid on revocable trust agreements.

S 50 Solicitation of Funds

S 50 05 Denominational Funding—1. *Mission of the Church*—The Seventh-day Adventist Church has accepted the commission to "go into all the world and preach the gospel." This has resulted in the development of a network of schools, hospitals, churches, clinics, mission stations, publishing houses, and other institutions, and the involvement of thousands of employees. In developing and maintaining this world-wide outreach, a philosophy of church funding has been adopted that not only provides for local needs, but also encourages support by strong churches and conferences/missions/fields for development in weaker areas.

2. *Systematic Giving*—Stability for the Work is assured by the "Systematic Giving Combined Offering Plan" which provides continuing income to the various church operations around the world. A percentage of these funds is kept at the local church level, while the remainder is divided among the

conference/mission/field, union, division, and General Conference. This approach provides balanced support for the approved operations of the Church.

3. *Direct or Indirect Solicitation*—Direct or indirect private solicitation of funds by employees serving outside their home divisions is considered to be in violation of denominational policy and not in the best interests of the long term support and development of the Church.

S 50 10 Solicitation by Organisations—No conference/mission/field, church, institution, or self-supporting enterprise is to solicit funds from outside its own territory without written authorisation from its conference/mission/field officers and of the conference/mission/field administration of the area in which the solicitation is to take place.

S 50 15 Solicitation by Individuals—No individual representing special interests in one part of the field is to solicit help for that work in any other part of the field or in any other conference/mission, without the written authorisation from the conference/mission officers of the individual's own territory and of the area in which the solicitation is to take place.

S 50 20 Contributed Funds—All funds contributed by our members for any cause, including authorised special projects, in response to appeals, shall be passed through the regular channels of the Church. Donor designated funds shall be used in accordance with the wishes of the donor and not diverted to other causes. All funds contributed to the local church, including those to be passed through for designated special projects, shall be limited to donations to or for organisations of the Seventh-day Adventist Church as listed in the *Yearbook*, or their affiliates. This provision does not prohibit local churches from using donated funds for local church-sponsored mission projects which may use other organisations to fulfil the projects with the local church.

S 50 25 Unauthorised Presentations and Solicitations—1. *Use of the Pulpit*—Ministers and church officers should not grant the privilege of the pulpit to persons who have no written recommendation from the conference/mission/field.

2. *Literature*—Literature for solicitation purposes shall be provided only to responsible persons.

3. *Unauthorised Solicitation*—Conference/mission/field and church officers shall take such steps as may be necessary to prevent unauthorised or illegal public solicitation.

4. *Regular Channels*—All funds contributed by our people in response to appeals for any cause, including authorised special projects, shall be passed through the regular channels of the Church.

5. *Appropriation Adjustments*—The Division reserves the right to make adjustments in the appropriations of organisations that, without proper authorisation, solicit funds in other territories.

S 50 30 Ingathering Methods—No campaign other than Ingathering shall be conducted for the solicitation of money by Ingathering methods, using Ingathering literature, and other Ingathering materials, for either home or foreign missions. Conferences/missions/fields shall take such steps as may be necessary to prevent violation of this regulation.

S 55 Holding Properties

S 55 05 Property Ownership—Church properties and other assets shall be held in the name of an appropriate denominational corporate entity, not by individuals, trustees, or local congregations. Where this is not legally possible, the Division shall make alternative arrangements in consultation with the General Conference Office of General Counsel.

S 55 10 Property Valuations—All church properties and other properties owned by conference/mission/field associations that are not used for association operating purposes shall be listed in the association books of account at their cost, and a reserve shall be set up leaving US$1 net valuation on each property as listed; this policy to apply as conditions and legal requirements may permit.

S 55 15 Special Provision—In situations where it is not possible or feasible to register a property-holding organisation in a country or where the expense of transferring properties would be prohibitive, properties may continue to be titled in the name of the General Conference Corporation of Seventh-day Adventists or other existing corporations. However, where possible the assets shall be recorded in the books of the Division or the subsidiary organisation in which the property is located.

S 60 Insurance Policies

S 60 05 Insurance of Denominational Assets—In order to maximise protection for all church operations against risk of accidents, property, and liability losses, the following operating policies shall be followed:

1. *Property Protection*—The treasurers and managers of denominational organisations, in co-operation with Adventist Risk Management, Incorporated, shall initiate measures to prevent losses and/or minimise the loss in the event of an occurrence, and shall be responsible for maintaining adequate insurance coverage of assets. Losses and accidents, including work-related injuries and illnesses, shall be reported on a timely basis in harmony with denominational operating policies.

2. *Liability Limits*—The Division shall be responsible for maintaining US$1,000,000 coverage for the liability risks, based on specifications established by Adventist Risk Management, Incorporated, with the General Conference purchasing a world-wide umbrella policy to insure for general liability (non-hospital) catastrophic losses.

3. *Acceptable Coverage*—Denominational assets shall be insured with an insurance company which is given a superior rating by a well-known insurance brokerage house approved by Adventist Risk Management, Incorporated, or with the Church-owned insurance company. Reciprocal companies and assessable companies are not recommended. Funded self-insurance programmes to cover

expected losses are acceptable risk financing techniques. However, the expected loss projections should be based on an actuary study and should have excess insurance covering the catastrophic exposure.

4. *Insurance Register*—Treasurers and managers of denominational organisations shall be responsible for holding and maintaining a complete record of the insurance policies covering the buildings and other assets. The original copy of public liability insurance policies shall be retained as a permanent record.

a. This record shall include the name and description of the property, the amount of insurance carried, the name of the company with which it is insured, the expiration date of the insurance policy, and the policy number.

b. Negotiations for the renewal of insurance policies shall begin at least 120 days before the expiration date, to avoid unintentional lapse of coverage.

c. Co-ordination of insurance coverage among denominational entities is critical. Thus Adventist Risk Management, Incorporated, or an independent insurance consultant should be consulted in all insurance negotiations, including the development of funded self-insurance programmes.

d. All affiliated and subsidiary organisations and institutions of the Seventh-day Adventist Church shall name the parent organisation(s), up to and including the General Conference Corporation of Seventh-day Adventists, as an additional named insured on all liability insurance policies.

5. *Auditing*—It shall be the duty of the auditor to check and report to the governing board or committee as to whether the provisions of insurance coverages are in harmony with the *Working Policy*. When requested by the General Conference Auditing Service, Adventist Risk Management, Incorporated shall assist as needed.

6. *Consultant*—Adventist Risk Management, Incorporated shall serve as consultant to the Division, union, conference/mission/field, and institutional Risk Management or Insurance Committees, including the Risk Management Committee and Trust Boards for Adventist health systems, and shall assist in the establishment of specifications for programmes which may be available from the insurance and risk management industry.

S 60 10 Minimum Limits of Liability Insurance—Minimum Limits shall be defined as no less than:

General Liability/Hospital Professional Liability (Primary)	US$1,000,000 per occurrence With a reasonable aggregate limit no less than 10,000,000 annual aggregate minimum
Commercial Auto Liability (Primary)	1,000,000 per occurrence
Garage Liability (Primary)	1,000,000 per occurrence
Excess Liability	9,000,000 per occurrence
Executive Risk:	

Directors and Officers Liability	25,000,000 per loss and annual aggregate
Fiduciary Liability	10,000,000 per loss and annual aggregate
Employee Dishonesty Coverage	3,000,000 per loss and annual aggregate
Miscellaneous Professional Liability	1,000,000 per loss and annual aggregate
Trustees Errors and Omissions Liability	1,000,000 per loss and 4,000,000 annual aggregate
Aircraft Liability*	50,000,000 per occurrence with no per passenger limit*
Non-owned Aircraft Liability*	50,000,000 per occurrence with no per passenger limit*
Airport Liability	50,000,000 per occurrence

Any requests for exceptions in limits for Hospital Professional Liability (HPL) or Aircraft Liability due to local circumstances must be made through the Division to the General Conference HPL/Aviation Liability Insurance Committee (as established by the General Conference Executive Committee) for approval.

S 60 15 Property Insurance—1. *Replacement Values*—Adequate insurance shall be carried on all denominational properties for perils of fire and extended coverage, or multi-peril coverage, where applicable, it being recommended that the coverage be on the basis of replacement values on buildings and actual cash value on contents. All buildings shall be covered from commencement of construction.

2. *Survey of Buildings*—The Treasurers/Chief Financial Officers of unions, conferences/ missions/fields and institutions shall survey the buildings in their respective territories, including the contents of such buildings, to determine the insurable value of all property.

3. *Appraisal*—The Treasurers/Chief Financial Officers of unions, conferences/missions/fields, and institutions are responsible to make sure that church-owned buildings are insured to value.

S 60 20 Crime Insurance—It is recommended that unions, conferences/missions/fields, institutions, churches, and schools protect their properties and moneys from the perils of theft, burglary, and robbery.

S 60 25 Boiler Insurance—It is recommended that organisations operating either low- or high-pressure vessels or boilers, water heaters, central air conditioning, commercial freezers, or refrigeration units obtain adequate coverage in the form of special boiler insurance.

*Including renter liability if applicable

S 60 30 Public Liability Insurance—There is a definite trend toward abolishing charitable immunity, both on the part of courts and legislative bodies, with the result that charitable organisations are being held liable for accidents and injuries of every description. Since it cannot be predicted when a court of law may render a decision reversing specific legislation granting charitable immunity, the following is recommended:

1. *Properties and Operations*—Liability protection shall be secured on all denominational properties and operations, with sufficient limits to protect the assets of each respective organisation. Coverage should be written on a blanket basis whenever possible with all property titled in the name of each respective organisation holding title, such as the conference/mission/field corporation or association.

2. *Volunteers*—It is recommended that liability coverage be extended to cover volunteers but only respecting particular projects and adhering to specific guidelines as follows:

    a. The project must be pre-approved by the conference/ mission/field or organisational administrative committee.

    b. The project and its nature must be reported to the Adventist Risk Management, Incorporated well in advance in order to arrange for proper extension of coverage.

    c. The premium for coverage must be guaranteed by the union/attached field.

3. *Motor Vehicles*—Liability protection shall be secured on all owned as well as non-owned vehicles used in behalf of the employing organisation, with adequate limits of bodily injury and property-damage liability. All vehicles owned by each organisation should nevertheless be included in one policy, with an automatic fleet endorsement or equivalent attached. In case of secondary schools, all vehicles shall be registered in the name of the conference/mission/field and included in the blanket policy for the conference/mission/field.

S 60 35 Aircraft Insurance—Organisations authorising or permitting the operation of an aircraft, whether denominationally owned or non-owned, shall be responsible for obtaining adequate insurance to cover potential legal liability, the aircraft, the pilot, and passengers. (See S 60 10 for minimum limits of aircraft insurance for denominationally owned aircraft)

S 60 40 Airport Insurance—Organisations owning, leasing or operating airports or airstrips shall be responsible for obtaining adequate limits of insurance to cover the denomination's potential legal liability.

S 60 45 Workers' Compensation Insurance—1. *Support of Injured Employee*—The financial responsibility for the support of injured or incapacitated individuals and their families may unnecessarily become a drain on the financial resources of a denominational organisation.

2. *Approved Coverage*—Denominational organisations are encouraged to secure Employers' Liability Insurance and Workers' Compensation Insurance or

its equivalent on all denominational employees including inter-division employees, literature evangelists, and volunteer workers. Where Workers' Compensation Insurance for employees is not required by law, coverage may be purchased on a volunteer basis and may include volunteer workers as well. In some jurisdictions, volunteer workers cannot be included in the Workers' Compensation Insurance Policy. In that instance, coverage may be obtained from Adventist Risk Management, Incorporated under an accidental death and medical indemnity policy.

3. *Inter/Intra-division Employees*—The General Conference shall purchase workers' compensation insurance that covers inter-division employees in the host/base division country for those employed by denominational organisations located outside of the North American Division territory. Any required local workers' compensation insurance in the host country is the responsibility of the host employer/division.

In the case of intra-division employees, this responsibility falls on the local employing organisation.

4. *Catastrophic Risks*—Since the cost of Workers' Compensation Insurance varies with the insured's accident and loss experience, management should avoid potential catastrophes which may arise from a concentration of large numbers of employees while traveling in buses, trains, automobiles, and aircraft.

S 60 50 Fire Protection in Denominational Buildings—Fire safety is dependent on a balanced combination of good building construction, proper attention against specific hazards, approved fire detection systems, adequate fire-extinguishing facilities, and a well-organised fire-prevention and evacuation procedure. Preventing loss of life or personal injury by fire is the first objective of all fire-protection programmes. The following standards are among those which shall be applied:

1. *New Construction*—a. In the construction of new buildings, a definite effort shall be made to meet the requirements of fire-resistive construction.

b. All plans drawn for any denominational building shall be in accordance with all applicable building and safety codes. In the event of a conflict between national and local codes, the more stringent one shall be applied. A statement to the effect that the blueprints conform to these codes shall be included in the specifications for the building which shall be submitted to the Division Treasury for approval before any construction commences.

c. The use of wood frame and/or combustible materials should not be considered in the construction of more than one storey, unless completely protected by an automatic sprinkler system, including adequate pressure and water supply. Single or double family dwellings, small service buildings, and farm buildings are excluded from this requirement.

2. *Dormitories and Other Sleeping Quarters*—a. All dormitories shall have approved interior fire alarm systems.

b. Dormitories not of fire resistive construction shall be completely equipped with an approved sprinkler system.

c. All sleeping areas not located on ground level shall have a minimum of two well separated exit stairs leading to the ground level.

S 60 55 Hospital Professional Practice and Safety Committee—Each union/attached field shall establish a policy requiring its healthcare institutions to establish appropriate committees or designate an individual to co-ordinate malpractice and related loss control procedures. This shall include the following activities:

1. The establishment of a hospital professional practice and safety committee in each entity with authority to recommend changes to the administration that are malpractice, loss control, or safety related. This committee shall meet on a regular basis. Copies of the minutes shall be sent to the Division Health Director or person appointed by the Division and Adventist Risk Management, Incorporated. The terms of reference shall include:

a. Timely reporting of incidents and review of all medical incident reports,

b. Recommending peer review procedures of medical professionals relating to specialty and licensing,

c. Establishing a monitoring system for medical equipment and physical plant,

d. Reviewing procedures as recommended by the Division health director or person appointed by the Division,

e. Reporting to the institution's executive committee all significant incidents and claims,

f. Encouraging in-house educational programmes that emphasise safe medical procedures, plant safety, and proper maintenance of equipment.

2. Significant incidents and claims shall be reviewed by the hospital executive committee.

S 60 60 Death Benefit Plans—1. Each union/attached field may develop and maintain a self-funded death benefit plan for its regular full-time employees, spouses, and their dependent children. This may be called an Employee Survivor Benefit Plan, Benevolent Association, or Death from Any Cause Plan.

2. Provision shall be made for inter-division employees to be covered under the same plan.

3. Where legally permitted, provision may be made for employees to contribute to the plan for additional death benefits. If the plan is so expanded, it is recommended that intra-division and inter-division employees be notified requesting that they accept or reject in writing the additional benefits.

4. The maximum benefit to be provided at denominational expense shall be determined by the union/attached field committee.

S 60 65 Managing Risks in Denominational Operations—1. Treasurers/ Chief Financial Officers and other managers of denominational organisations shall be responsible to develop a proactive risk management and loss prevention programme for their organisation, in consultation with Adventist Risk Management. The objectives of the risk management programme shall include identifying potential operational, transportation or natural hazards that could cause loss, develop appropriate masures to avaid or minimise loss, and determine the appropriate levels of insurance to protect denominational resources in the event of a loss.

2. Each denominational organisation should designate a Safety Committee to co-ordinate risk management training and oversee the implementation of safety practices. The Safety Committee will also review all losses that occur within the organisation on a periodic basis.

S 60 70 Risk Management and Safety Plans—The primary goal for the risk management/safety plan is to provide a safe environment in which to worship, work, study or fellowship. Proactive safety planning shall be a priority for all denominationally sponsored activities.

It is critical that every denominational organisation develop a risk management/safety plan for its churches, schools, and institutions, for the following reasons:

1. To establish best practices that can prevent accidents within the organisation.
2. To satisfy compliance with governmental health and safety regulations.
3. To reduce the risk negligence that may result in the loss of life, bodily injury, or loss of physical assets.
4. To help the organisation prepare and plan for the unexpected.
5. To establish management's commitment, responsibility, authority, and accountability for safe practices and loss prevention.
6. To identify and reinforce safety and loss prevention awareness throughout the organisation.

Each organisation shall designate a safety officer to implement the risk management plans developed, conduct safety training, and perform loss prevention site surveys of denominational facilities. The Safety Committee should report their recommendations to the officers of the denominational organisation.

Adventist Risk Management shall be consulted to assist denominational organisations with the establishment and implementation of best practice risk management/safety programmes and help with providing training and other risk management educational resources.

S 65 Recording of Contingent Liabilities

S 65 05 Contingent Liabilities—1. *Definition*—Contingent liabilities are liabilities which, although not representing an immediate specific claim against the assets of the organisation, do represent a commitment to assume such a liability if necessary.

2. *Recording*—A total of all contingent liabilities shall be shown in an appropriate footnote on the balance sheet of the organisation, and a supporting

schedule shall be presented listing complete detail of all such contingent liabilities, showing maker, amount due, interest rate and date due.

S 65 10 Errors and Omissions Liability—All attorneys who are engaged or retained by denominational entities shall be required to maintain errors and omissions liability insurance with minimum limits according to local legislation. Evidence of coverage should be provided to the organisation prior to the commencement of their service. Unions/attached fields are to determine insurance limits under the errors and omissions coverage that are appropriate for their territories.

S 70 Depreciation

S 70 05 Depreciation Expense—1. *Operating Expense*—All denominational organisations are to include depreciation on buildings and equipment in their annual statements as an operating cost, the same to be credited to an allowance for depreciation account.

2. *Use of Depreciation Funds*—This accumulated funded depreciation is to be used for the erection of new buildings and meeting replacement expenses, such as renewing of roofs, re-plastering, re-flooring of rooms, etc.; and for meeting the expense of replacement of furniture and equipment.

3. *Rate*—An exhibit showing the use that has been made of depreciation funds shall be included in the operating statements.

The following are suggestive rates for building depreciation:

Well-constructed brick, stone, or reinforced cement buildings	75 yr life, 1a% of cost
Brick-veneer or thin-wall cement buildings	50 yr life, 2% of cost
Frame stucco buildings on good foundations	40 yr life, 22% of cost
All other buildings	20 to 35 yr life, 3% to 5% of cost

S 85 Investment of Church Funds

S 85 05 Safeguarding Denominational Funds—*Introduction*—In order that assets for investment might be prudently managed the following principles and policies have been adopted for the Division.

S 85 10 Philosophy—Committees and individuals authorised 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 that 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. 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. To the extent reasonably possible and efficient, the operational role should be separated from the oversight role for investment management.

2. All investments must be prudent and in harmony with the laws, rules and regulations of the jurisdiction in which the organisation is located.

3. 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 organisation.

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.

4. 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.

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

6. 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.

7. Within the values of the denomination, controlling committees shall invest and manage each pool of assets for investment solely in the interest of achieving the purposes for which each of the individual pools of assets were established.

8. In investing and managing assets, a controlling committee must limit costs to those that are 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.

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

S 85 20 Policies—1. Investments in any company should not exceed 2.5 per cent of the outstanding ownership of the entity.

2. At no time shall a controlling committee allow more than 5 per cent of the total S 85 45 assets under its management, based on market value, to be invested in the securities of any one issuer other than G-7 countries and their guaranteed agencies.

3. At no time shall a controlling committee allow more than 15 per cent of the assets under management, based on 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. Normally asset pools of less than US$5,000,000 would not qualify. For asset pools greater than US$5,000,000, a committee must evaluate available options with a view to minimising management costs in consultation with an Investment Management Consultant as defined in S 85 20, paragraph 11., below.

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 capitalised, 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, reductions 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 favourable 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 generated at each broker/dealer.

6. Controlling committees shall complete an asset allocation study in consultation with a non-conflicted, qualified Investment Management Consultant for asset pools for investment 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. For each asset pool an Investment Policy Statement in a format understood by the money management industry and consistent with this Division *Working Policy* shall be approved by each controlling committee whether employing external managers or managing funds internally.

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

10. Custody and Valuation of Securities: Self custody of securities is not allowed.

a. For accounts managed on a separate account basis, controlling committees must select a recongnised custodian (or through agreement with a

Sub-Custodian) who:

1) Maintains possession of securities owned by the controlling committee
2) Settles brokerage transactions, and provide monthly detail of such transactions
3) Collects dividend and interest payments
4) Redeems maturing securities
5) Affects delivery following purchases and sales
6) Provides timely exception reporting
7) Handles corporate actions
8) Provides performance measurement and risk assessment
9) Provides transaction cost management
10) Performs regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of controlling committee accounts
11) Independently prices all marketable securities on a daily basis
12) On a monthly basis produces an audited statement detailing all positions held as well as all transactions that occurred during the month
13) Independently marks to market all securities and pooled funds on at least a monthly basis
14) Performs monthly valuations on a trade date, fully accrued basis
15) Provides a report on controls in accordance with International Standards on Assurance Engagements 3402 (or in the United States, Statement on Standards for Attestation Engagements No. 16) on an annual basis
16) Does not co-mingle the controlling committee assets with any other assets
17) Is separately organised and regulated from all broker-dealers
18) Is financially sound
19) Is registered with the proper regulatory authorities and in good standing

b. Controlling committees may not select a custodian (or through agreement with a Sub-Custodian) that:

1) Is principally engaged in securities trading or commercial banking other than what is incidental to its custody services or other asset management services,
2) Is any broker-dealer with whom securities and transactions are made—must be an independent custodian,
3) Allows securities to be held by any brokerage house or financial institution through which securities are purchased or sold.

c. Banks or broker-dealers which are engaged in the sale of securities to the controlling committee may not act as a custodian except in the sole case of local banks which are handling the controlling committee's deposit accounts. Purchase by the controlling committee of its depository banks' interest bearing short-term securities, that qualify under S 85 35, is permitted. Custodianship of that bank's certificates of deposit are excluded from the recognised custody restriction, although it is preferable when cost effective, to have all securities held by the recognised custodian.

11. Investment Management Consultancy: All controlling committees that delegate investment management authority of intermediate or long-term portfolios of marketable or non-marketable securities to internal management or outside investment advisors, through either a separate account or a pooled fund, through delegation to an investment manager or the purchase of a pooled investment vehicle (General Conference Utilised Funds are exempt), shall engage the services of an independent investment consultant. Investment Management Consultants must:

a. Be professionally certified with academic or professional credentials and certifications or proven experience

b. Be active in advising institutions on fund asset management, custody, performance measurement, asset allocation, Investment Policy Statement development (IPS—instructions to managers) and administrative tasks

c. Assist the controlling committee in defining programmatic objectives and financial goals

d. Objectively analyze portfolio structure and recommend asset allocation

e. Advise on the suitability of asset selection and strategy used by investment managers to fulfil the objectives of the investment pool

f. Assist in determining if the controlling committee and the investment manager meet the provisions of S 85 15

g. Demonstrate a substantive financially stable organisation that effectively performs due diligence and research on a large universe of asset managers and assists in the asset managers' engagement and discharge

h. Perform compliance review and actively participate in the performance monitoring

i. Be involved in portfolio rebalancing

j. Review potential conflicts of interest

k. Assist in the selection of an external manager

l. Not be empowered to contract directly with any third party

m. Not be affiliated with any bank, brokerage, or financial institution which transacts in securities, whether for its own account or as a third-party agent but is prohibited from utilising a broker/dealer who is an affiliate of the investment management consultant

n. Not be commissioned based but must be fee or asset based and may not receive any incentive fee, brokerage commission, or sales load

o. Acknowledge any conflict of interest in writing and this must be approved by the controlling committee

p. Investment management consultants may only recommend highly qualified, professional asset managers, see S 85 20, paragraph 11., below.

q. Be registered with the SEC or its foreign equivalent

r. Have had no violations in the previous 36 months for which it has paid fines imposed by regulatory authorities

s. No less than annually, the investment management consultant must:

1) Document and certify in writing that it has performed a review of all asset managers' required regulatory filings and compliance records,

2) Review the history of assets under management,

3) Review historical personnel turnover,

4) Review contracted for investment management strategy compared with actual portfolio performance,

5) Adherence to policy and suitability of holdings,

6) A written review must also include sections detailing actions taken as a result of the decisions made in paragraph 11. a. to 11. t., above. When appropriate this may be in the form of minutes reflecting actions by an investment committee.

12. Investment manager—Investment managers selected to manage a portfolio for a controlling committee must:

a. Be compensated on a salary, fee, or asset basis not a commission basis

b. Represent and warrant that they are currently and will continue to act in a fiduciary capacity.

c. Have combined assets under management of at least US$250 million with no less than US$100 million in each of the specific asset classes for which they are being retained

d. Have a satisfactory track record of at least three years

e. Be managed by no less than three full-time professionals with academic or professional credentials and certifications or proven experience

f. Be registered with the SEC or its foreign equivalent

g. Have had no violations in the previous 36 months for which it has paid fines imposed by regulatory authorities

h. Not use a broker-dealer who is an affiliate of the Manager

i. Not allow any broker-dealer to act as a custodian

j. Ensure that all broker-dealers are properly registered and in good standing with all regulatory entities

k. Exceptions to this policy may be made only with approval of the next higher organization

l. Not participate as a voting member of the controlling committee whether they are an external or internal manager

m. If retained as an internal manager be reviewed with the same diligence and objectivity as that of an external manager

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 are acquired through

donation or the maturities of a trust is held until a prudent investor would liquidate such assets, they shall not constitute a violation of S 85. Reasonable effort will be made to dispose of said assets in a timely manner.

16. Unions to establish investment policy—a. *Rationale*—Wide variations in national markets, laws, regulations, securities, and levels of investment expertise make it impractical to establish a single detailed set of investment policies beyond a set of general principles and policies.

b. *Unions*—Each union is encouraged, subject to Division Administrative Committee approval, to develop an investment policy in harmony with and no less restrictive than the provisions of this policy which contains principles, guidelines, and processes appropriate to its territory to govern the investment practices of its organisations and institutions.

c. Unions choosing not to develop an investment policy for the union and its affiliated organisations, shall be limited to investments in the General Conference Unitised Funds and/or those investments covered in S 85 35.

Notwithstanding, the requirements of S 85 50 exception requests to limitations of S 85 20, 16 c., may be addressed in writing to the Division Treasurer/Chief Financial Officer, who, in consultation with the officers of the Division, or requesting union shall recommend for action to the Division Administrative Committee whether the Division Executive Committee should be authorised to determine the acceptability of the exception request.

S 85 25 General Conference Unitised Funds—1. The General Conference Investment Office serves the world field through a family of General Conference Unitised Funds that are designed to pool Church funds for investment such that maximum economies of scale are achieved for the Church and its mission. This family of General Conference Unitised 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 Church. 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 Unitised 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 Capitalisation Equity Fund
g. General Conference U.S. Small Capitalisation Equity Fund
h. General Conference International Equity Fund
i. General Conference Emerging Markets Equity Fund
j. General Conference Global Opportunities Fund

k. General Conference Micro Capitalisation/Private Equity Fund (closed to new investors)

Each General Conference Unitised Fund, except the General Conference Money Fund and Capital Preservation Fund, offers monthly liquidity to all participants. The Micro Capitalisation Fund is closed to new investors.

3. The portfolios of the General Conference Unitised Funds are composed of domestic and international equity, fixed income, and cash equivalent securities. Within this framework, the investment objectives of each General Conference Unitised 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 Fund	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
Micro Capitalisation Fund/ Private Equity Fund	Aggressive Growth	Growth of Capital

S 85 30 Classes of Funds—Assets for investment at all organisational levels must be divided into three classes:

1. 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 maximise current income with an emphasis on security of principle and liquidity.

2. Intermediate-Term Funds—Those funds that support operating activities and projects that are not anticipated to commence within the next twelve months. They typically would include excess operating capital, funds held for building and other projects not expected to be needed during the next twelve months. Intermediate-term funds are to be invested with the goal of obtaining a positive

annual return but even more importantly, over the investment time horizon of forty-eight months, to protect against loss of principle. In order to accomplish this there is a willingness to sacrifice some positive returns to protect principle. 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.

3. Long-Term Funds—Those assets that are committed for retirement benefits, endowment, quasi endowments, or other long-term needs where fluctuations in market value are acceptable to achieve greater anticipated long-term returns. It is recognised that in some years, fluctuations in market may result in negative rates of return. 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 line with the appropriate benchmarks.

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

2. All denominational organisations, institutions, and services are authorised 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. Banker's acceptances created in international trade

b. Commercial paper

c. Certificates of deposit of insured institutions, up to insured limit

d. Securities issued by one of the G-7 national governments, their agencies and local government bodies, or government obligations denominated in the local currency of the investing organisation with approval by the division concerned

e. Corporate securities, which satisfy all of the limitations stated above, with less than one year to maturity and ratings equivalent to A-1 or P-1

f. Capital Preservation or General Conference Unitised Money Fund or other money market funds with assets in excess US$250,000,000

g. Union revolving funds

h. In order to implement certain strategies and/or asset allocation decisions in a timely and cost effective manner, the Fund may invest in pooled vehicles (e.g. mutual funds, bank comingled funds, limited partnerships, closed end funds, exchange traded funds ("ETFs"), etc.) Although these guidelines are written primarily for investment managers of separate accounts, all investment managers will only invest in pooled vehicles that have policies that are consistent with the spirit and intent of this document. In addition the following provisions apply:

1) Registered, open-end (mutual) funds must not have 12b-1 fees or their equivalent and must comply with all provisions of S 85 15. The Fund will

generally hold securities that mature in 12 or less months.

2) Closed end funds may not use strategies or purchase securities that are prohibited for direct investment and must comply with all provisions of S 85 35, paragraph 1., and/or S 85 35, paragraph 2. e. Any Fund using any strategy or pool of securities falling under S 85 50 must have proper approval prior to purchase for a portfolio. The Fund will generally hold securities that mature in 12 or less months and must comply with all provisions of S 85 10 and S 85 15.

3) Exchange Traded Funds (ETFs) that generally hold securities that mature in 12 or less months which generally meet the above rating criteria.

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

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

2. Marketable bonds must be 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 that are permitted include only those with up to four years average life unless matched for specific liability dates.

4. Intermediate-Term investments include:

a. Securities that have an average life of less than forty-eight months

b. General Conference Unitised 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.)

d. Division/Union deposit funds

e. Registered, fixed income (mutual) funds which do not have 12b-1 fees or their equivalent and Exchange Traded Funds (ETFs) which comply with all provisions of S 85 15 with an average life of less than 48 months and which generally meets the rating criteria in S 85 40, paragraph 15., on at least 95 per cent of assets

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

2. Long-Term investments include:

a. Equity Investments:

1) Common stocks, American Depository Receipts (ADRs) of foreign companies, and ordinary shares of non-U.S. securities or warrants thereon, listed on recognised exchanges

2) Preferred stocks rated investment grade

3) Convertible securities including debentures rated investment grade

4) Sales and repurchase of covered calls listed on a recognised exchange

5) Registered, (mutual) funds which do not have 12b-1 fees or their equivalent and Exchange Traded Funds (ETFs) which comply with all provisions of S 85 15 and which generally meets the rating criteria of S 85 40, paragraph 2., on at least 95 per cent of assets

6) Well capitalised, non-speculative Real Estate Investment Trusts (REITs) listed on a recognised exchange

7) Intra-denominational loans adequately secured by recorded mortgage, deeds of trust, chattel mortgages on equipment, or guaranteed by the next higher organisation, and interest-bearing with a repayment schedule

a) In addition to the terms of 8) above for organisations within the loaning entity's territory but not under its jurisdiction, either a guarantee or a "no objection" must be obtained from the controlling committee of the borrower's parent organisation.

b) In addition to the terms of 8) above for organisations outside the loaning entity's territory either a guarantee or a "no objection" must be obtained from the Division or controlling organisation in whose territory the borrowing organisation is located.

8) All equity focused General Conference Unitised Funds

b. Fixed Income—Unless otherwise stated must be rated investment grade:

1) G-7 Government, their agencies, and taxable Municipal Securities

2) Corporate notes and bonds maturing within thirty years

3) Mortgage and other asset backed securities maturing within thirty years with the following exceptions:

a) Subordinated debt is prohibited

b) All collateralised obligations must be rated AA or better

c) Interest Only (IOs), Principal Only (POs), Inverse floaters and all other leveraged tranches are prohibited

4) Syndicated real estate mortgages limited to 70 per cent 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

6) First mortgages on an employee primary residence with up to 90 per cent loan to value and repayment through a payroll deduction

7) General Conference Bond and Income Unitised Funds and Income Unitised Funds or an income fund with a thirty-six month average life

S 85 50 Special Consideration Securities—With Division Executive Committee, or as otherwise provided, in S 85 20 16 c., the following may be permissible for organisations administering large investment pools (normally not less than US$10,000000), no individual investment to exceed 2.5 per cent of assets in pool and with professional management staff:

a. Real Estate—Syndicated with institutional investors and as a class not to exceed 5 per cent of all assets in the controlling committee pool invested in the syndicated property(ies) or if a single property principally owned, investment shall require professional consultation and management advice and prior approval by the controlling committees at all levels below the Division Executive Committee.

b. High yield bonds as a class not to exceed 5 per cent of all assets in the pool of the controlling committee.

c. Partnerships investing in equity securities which are managed defensively such as hedged equity, as a class not to exceed 7.5 per cent of all assets in the controlling committee pool.

d. Trust deeds and/or private mortgages are as a class not to exceed 5 per cent of controlling committee pool.

e. 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 co-ordinated within the overall manager's strategy.

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

4) The manager may utilise derivatives 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 variable that would not otherwise be allowed in the portfolio guidelines were derivatives contracts not allowed.

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

f. Private equity

S 85 55 Miscellaneous—1. Interpretation regarding investment vehicles not named in this policy shall be submitted in writing prior to making any investment or binding commitment through the Division Treasurer/Chief Financial Officer for interpretation of applicability of the specific investment vehicle within the framework of this policy.

2. It is recognised that where the Church operates a Planned Giving and Trust Services function, national trust legislation contains certain regulations and that such regulations supersede the provisions of the S 85 policy.

S 90 Division Core Policies for Policy Compliance Testing [(a)(b)]

The General Conference Executive Committee has identified core policies to be tested during the financial audit or review engagement for each denominational organisation. In identifying these core policies, a materiality threshold was defined for each core policy which determines the level of reporting for any noted non-compliance; and a related assertion statement was developed for each core policy which together shall be signed and submitted by the principal officers of each denominational organisation before the commencement of the audit engagement.

Summary of Policy	*Materiality* [(c)]	*Assertion* [(d)]
GENERAL		
1. Policies on financial control:		
A. Financial reports provided on a regular basis: Administration—minimum of 9 per year and Committee—minimum of 4 per year. (S 19 05)	100% compliance.	Management has prepared and studied nine of the twelve monthly financial statements and provided at least four statements throughout the year to the organisation's governing body which compared them with the annual budget.
B. Budget plan approved by committee. (S 09 10)	Approved = Yes/No	Management has prepared an annual budget which was approved by the controlling committee.
C. If, at the close of the financial year, the organisation recorded an operating loss, recovery shall be provided for in subsequent budgets, if working capital is less than 100 per cent and if liquid assets are less than current liabilities and allocated funds. (S 09 20)	Provided – Yes/No working capital allowed to drop to 75 per cent before reported in Policy Compliance Report.	When working capital was less than the recommended amount and liquid assets on hand were inadequate to cover current liabilities and allocated funds, management included a recovery plan when preparing the ensuing years' budgets.

Summary of Policy		*Materiality* [c]	*Assertion* [d]
2.	Audit Committee appointed by controlling committee composed of a minimum of three members from the controlling committee who are not employees to submit recommendations to the controlling committee (S 34)	Appropriate composition = Yes/No	The controlling committee has appointed the Audit Committee composed of three or more members from the membership of the controlling committee who are not employees of the organisation being audited and they have submitted recommendations to the controlling committee.
3.	Funds borrowed from church members. (S 45 05)	Other than the Planned Giving and Trust Services Programme and Union Revolving Fund Plan, was borrowing from members more than 5 per cent of liquid assets?	The organisation has not solicited loans from any church members, except through denominationally recognised channels such as Planned Giving and Trust Services and revolving funds.
4.	All board members and employees designated by policy shall sign statements of acceptance of the conflict of interest policy. (E 85 20)	All = 90 per cent of individuals (must include 100 per cent of officers plus any others specially specified by organisation's board).	The chief administrator has received a statement of acceptance and compliance with the policy on conflict of interest from each of the individuals designated by policy.
5.	Working capital shall be at least the recommended amount. (S 24 10)	Working capital amount is recommendation only, therefore would never be in Policy Compliance Report.	The organisation has the recommended amount of working capital.

Summary of Policy		*Materiality* [c]	*Assertion* [d]
6.	Contributions to denominational Retirement Plan(s) shall comply with applicable division policy. (Z 05 10)	Compliance = 100 per cent of required contributions in period when due.	The organisation has made all required contributions to the applicable retirement plans in accordance with *Working Policy*.
7.	The provisions of insurance coverage shall be in harmony with *Working Policy*. (S 60 05)	All = at least 95 per cent of the properties covered, and at least the minimum levels of liability coverage.	The organisation has purchased property, liability, and other applicable insurance coverage that is in harmony with S 60 05.
8.	Formation of new legal corporations shall be approved by the respective division or GC committee. (BA 25 10)	Approved = Yes/No	The organisation obtained approval from the respective higher organisation to form a new legal corporation.
SECURITIES & INVESTMENTS			
9.	Investments (in all Funds, for the type of entity) shall comply with policy.		Divisions that adopt their own investment policies in accordance with S 85 should replace steps 8A through 8H with their own policies.
	A. Intermediate and long-term investments shall not exceed 4.9 per cent of the outstanding ownership of any entity which it is invested in. (S 85 20)	Less than 5.4 per cent of the outstanding ownership of any one issuer.	The organisation does not own more than 4.9 per cent of the total equity of any other entity.

Summary of Policy	*Materiality* [c]	*Assertion* [d]
B. Controlling committee shall not allow more than 5 per cent of the assets under its management, based on market value, to be invested in the securities of any one issuer, other than government debt.	Less than 5.5 per cent of the total assets under management	Other than government debt, the organisation has not invested more than 5 per cent of its total assets in the securities of any one issuer.
C. Controlling committee shall not allow more than 15 per cent of assets under management, based on market value, to be invested in any one industry. (S 85 20)	Less than 16.5 per cent of assets under management invested in one industry	The organisation has not invested more than 15 per cent of assets under management in any one industry.
D. Asset pools shall be large enough to justify management costs paid for the retention of external managers or the purchase of individual securities. (S 85 20)	Asset pools greater than US$2,000,000, Yes/No	The investment committee has evaluated available options with a view to minimising management costs.
E. Controlling committee shall complete an asset allocation study, approve an investment policy statement, and based on these divide all assets for investment into three classes. (S 85 20 and S 85 30)	Compliance = Yes/No	The controlling committee has completed an asset allocation study, approved an investment policy statement, and based on these divided all assets for investment into three classes.

Summary of Policy	*Materiality* [(c)]	*Assertion* [(d)]
F. All short-term securities purchased shall have adequate market liquidity and shall be rated A-1, P-1 or equivalent except those issued by a sovereign government. (S 85 35)	All = 95 per cent of all short-term securities	The organisation's investments in short-term securities have adequate market liquidity and do not represent a significant exposure relative to the organisation's short-term portfolio and are rated A-1, P-1 or equivalent
G. Investment of intermediate-term funds shall be rated "investment grade" or better by Standard and Poor's (BBB-or higher) and Moody's (Baa3 or higher). Securities have an average life of less than forty-eight months. (S 85 40)	All = 95 per cent of all intermediate-term securities including special temporary employee loans	The organisation has invested in intermediate-term funds that are rated "investment grade" or better by Standard and Poor's (BBB- or higher) or Moody's (Baa3 or higher) or one of their subsidiaries. Securities have average life of less than forty-eight months.
H. Investment in long-term funds include approved equity investments listed on recognised exchanges and also shall meet all the provisions provided in S 85 35 and S 85 40. Intra-denominational loans shall be adequately secured. (S 85 45)	All = 95 per cent of total long-term funds	The organisation has invested in approved equities listed on recognised exchanges. For intra-denominational loans, the organisation has obtained a "no objection" from the controlling committee of the parent organisation. Mortgages are adequately secured and syndicated; real estate mortgages have been limited to 80 per cent of the fair market value of the collateral.

Summary of Policy		*Materiality* [c]	*Assertion* [d]
	I. Investments in other vehicles ("special consideration securities") requires appropriate approval. (S 85 50)	Approval = Yes/No	The organisation has obtained appropriate approval before investing in securities in the "special consideration" category.
SPLIT-INTEREST AGREEMENTS			
10.	Local conferences/ missions/fields considering gift annuities in excess of $100,000 or non-cash annuities, shall counsel with union prior to writing agreements. (S 40 10)	All = 95 per cent of the value of cash and non-cash gift annuities	The organisation counseled with union prior to accepting and administering gift annuities in excess of US$100,000 or non-cash annuities. All gift annuities have been accepted and administered in accordance with local laws.
11.	Annuity rates shall be in accordance with policy. (S 40 10)	All = 95 per cent of annuities are in accordance with GC/division provided rate schedules	The organisation has adhered to applicable GC/division provided rate schedules for gift annuity agreements.
12.	All trust agreements shall be authorised by board or appropriate committee, written upon competent local legal counsel, and the denomination will benefit substantially from the trust agreements. (S 40 15)	All = 95 per cent of agreements and the related monetary amounts were authorised, written upon counsel, and benefited the denomination. Yes/No	Trust agreements were all authorised by the board or an appropriate sub-committee, were written upon competent local legal counsel, and substantially benefited denominational organisations.

Summary of Policy		*Materiality* [(c)]	*Assertion* [(d)]
13.	Each organisation shall record in the legal corporation minutes the maturity of all deferred gift instruments and the distribution made to beneficiaries. (S 40 25)	All = 95 per cent of agreements and related monetary amounts. Yes/No	The organisation has recorded the maturities of all deferred giving instruments and the distributions made to beneficiaries in the legal corporation's minutes
14.	No denominational employee, serving as administrator, trustee or executor of wills shall receive any fees for his/her personal benefit. (S 40 30)	Fees received for personal benefit? Yes/No	No denominational employee, acting as administrator, trustee or executor of wills has received any fees for his/her personal benefit for rendering this service
DEBT, OTHER LIABILITIES, AND CONTINGENCIES			
15.	Accounting for gift annuities shall comply with policy and be in harmony with GAAP. (S 40 10)	All = at least 95 per cent of gift annuities and related monetary amounts are accounted for in accordance with GAAP.	The organisation has accounted for all gift annuities in accordance with generally accepted accounting principles. (GAAP)
16.	As far as possible, financial activities should be conducted without the use of borrowing. When borrowing is used it must comply with the policy which include the following limitations:		

	Summary of Policy	*Materiality* [c]	*Assertion* [d]
	A. Borrowing for capital projects must comply with the policy specifying maximum percentage of borrowing on any project and cash requirements before commencement. (S 14 05, paragraph 5.)	All = At least 95 per cent of costs for enlargement of facilities without debt, except as provided by policy and properly authorised	Management approved the enlargement of facilities with funding provided out of organisation's own funds or with debt that is in accordance with policy and properly authorised.
	B. Denominational organisations shall not borrow money for reinvestment. (S 14 05, paragraph 2.)	Borrowed money to reinvest? Yes/No	The organisation did not borrow any money for reinvestment.
	C. No organisation shall borrow money to re-lend except through a denominational revolving fund or similar method approved by the division executive committee. (S 14 05, paragraph 3.	Borrowed money to re-lend? Yes/No	The organisation did not borrow money to re-lend except through the denominational revolving fund or similar method approved by the division executive committee.
REVENUE			
17.	Proper tithe percentages shall be remitted by the divisions to the GC. (V 10 05, paragraph 4.)	All = at least 100 per cent of the amount each division's appropriate tithe percentages to the GC on behalf of the world field	The divisions have remitted all required tithe percentages to the GC.
18.	Tithe funds shall be used only for their intended purposes (V 15 15)	All = 100 per cent of all tithe funds used	The organisation used all tithe funds in accordance with policy.

Summary of Policy		*Materiality* [c]	*Assertion* [d]
19.	Capital expenditures for land, buildings, and other facilities shall not be funded out of tithe, except the purchases of evangelistic equipment. (V 15 25)	Yes/No	Except the purchase of evangelistic equipment, the organisation did not use tithe funds to finance capital expenditure activities.
20.	Mission offerings shall be passed on to the General Conference and shall be distributed appropriately per policy. (W 05 05)	All = 100 per cent of GC-designated world mission funds	All world mission funds recognised as General Conference funds have been received, recorded, and appropriately distributed in accordance with policy.
PAYROLL			
21.	For all employees:		
	A. Pay rate shall be within applicable range in remuneration scale. (Y 05)	All = 100 per cent of all employees [d]	Employees have been remunerated in accordance with applicable ranges in remuneration scale.
	B. Service record shall be maintained, updated, and signed. (E 70 20)	All = 90 per cent of all employees	The organisation has maintained and updated service records. A responsible official has signed the official copy of the form.
22.	Vacations, holidays, and sick time practices shall comply with policy. (E 75)	All = 100 per cent of officers, 90 per cent of non-officer employees	The organisation has complied with the policies on vacation, holiday, and sick time for each employee.
23.	Employee reimbursements for auto use, per diem, and other travel related expenses shall comply with policy. (Y 10 05)	All = 100 per cent of officers, 90 per cent of non-officer employees	The organisation paid auto allowance, per diem, and other travel related expenses in accordance with policy.

Summary of Policy	*Materiality* [c]	*Assertion* [d]
24. Health care assistance shall comply with policy. (Y 15 15)	All = 100 per cent of officers, 90 per cent of non-officer employees	The organisation provided health care assistance to employees and their other eligible dependents in accordance with policy.
25. Scholarship grants to dependents of employees shall comply with policy. (Y 15 30)	All = 100 per cent of officers, 90 per cent of non-officer employees	The organisation provided tuition assistance to the dependents of eligible employees in accordance with policy.
26. The financial particulars of all settlements paid to discontinued employees shall be recorded in the official office copy of the appropriate committee minutes and on their service record. (E 70 30)	All = 100 per cent of sample tested, complied with policy	The organisation has recorded in the official office copy of the appropriate committee minutes and on the service record an appropriate action relating to the discontinuance of service and the particulars of any financial settlement made.

Notes:

(a) Auditors are to test for compliance with these core policies on every financial audit or review engagement. When additions are made to core policies at an Annual Council they become effective on January 1 of the following year and auditors will test for compliance after the conclusion of that year. If auditors become aware of non-compliance with other policies that appear to be significant or pervasive in their district or territory, they will report such non-compliance in general terms in communications with either the respective division or the General Conference, but not in communications with the audit client.

(b) Materiality is to be used by the auditor to determine how to communicate noted non-compliance. If the non-compliance exceeds the materiality, it will be noted in the Policy Compliance Report. If non-compliance is below the materiality, it will be noted in the Audit Communication Letter.

(c) The assertions should be provided by management to the auditor at the same time as the Audit Engagement Letter is submitted.

(d) Except transitional employees, if approved by administrative committee or human resources committee.