I’m not an attorney, or an auditor, or a CPA. As an Associate Director, my work is to support church’s long-term financial health. So, I help churches ask for planned gifts, and I help them understand what their options are in terms of setting up and managing their long-term funds.

(Presenter is Julia Frisbie, julia@faith.foundation, 800-488-4179)

If I see a question pop up in the chat that's quick to answer, I'll do it right away. If I see a question about something we're going to get to soon, or it requires a longer answer, I'll save it for the Q&A at the end of our time together tonight.

What is an endowment?

It's a gift with strings attached.

Compared to an outright gift, which can be used however the church decides, an endowment is a **gift of earnings over the long term.**

From Oregon's UPMIFA statute, ORS 128.316: "Endowment fund" means an institutional fund or part of an institutional fund that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis.

FAITH FOUNDATION NORTHWEST

What is an endowment?

Earnings: whatever the principal earns funds your ministries.

Principal: the original amount, invested for long-term growth and never spent.

It’s crucial to distinguish between the endowment’s gifts and its earnings. That’s why the Foundation’s statements, which are designed for endowments, report them separately.

FAITH FOUNDATION NORTHWEST

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DIV-MOD

		Aug 1 - Aug 31, 2021 Current Month		Year to Date
Principal Account				
Beginning Balance	$	54,440.32	$	53,940.32
Contributions to Principal	$	0.00	$	500.00
Principal Distributed	$	0.00	$	0.00
Principal Account Balance	$	54,440.32	$	54,440.32
Income Account				
Beginning Balance	$	18,633.43	$	13,549.99
Transfer from Principal	$	0.00	$	0.00
Net Investment Income	$	52.03	$	350.15
Other Income/Interfund Transfers	$	0.00	$	0.00
Realized/Unrealized Gain/Loss	$	1,037.93	$	5,823.25
Disbursements	$	0.00	$	0.00
Income Account Balance	**$**	**19,723.39**	**$**	**19,723.39**
TOTAL FUND BALANCE	**$**	**74,163.71**	**$**	**74,163.71**

Principal: the original amount, invested for long-term growth and never spent.

Earnings: whatever the principal earns funds your ministries.

FAITH FOUNDATION NORTHWEST

Where does the money come from?

Most often from a bequest, which is a gift made after the donor’s lifetime in their will or trust.

Hint: it’s probably not going to show up in your offering plate! Most often from a bequest, which is a gift made after the donor’s lifetime via their will or trust.

For example: the person who planted the rose garden at the church and tended it for 35 years leaves a gift to the church in their will that funds the ongoing maintenance of the rose garden.

Where does the money come from?

Sometimes from another planned gift, like a gift of stock, IRA rollover, real estate, etc. while the donor is still living

Sometimes from other types of planned gifts (trusts, gifts of real estate, IRA rollovers, gifts of stock, etc) while the donor is living.

Example: a person giving making their required minimum distribution from their IRA directly to their university for 10 years in a row to build up the principal in an endowment to fund a new faculty position.

A person giving a house they'd inherited and didn't really need to the Foundation in order to fund an endowment to for their church.

Where does the money come from?

Sometimes from an unexpected windfall that the church decides to designate as an endowment:

"QUASI-ENDOWMENT"

Sometimes from a surplus or unexpected windfall that the church leadership decides to designate as an endowment. We recommend this happening via an act of the Charge Conference. *A number of churches did this in the 90s when our churches were doing really well and the markets were doing really well.*

FAITH FOUNDATION NORTHWEST

What about restrictions?

Two types of to look for:

Purpose: **WHAT** is it intended for…

Duration: … and for **HOW LONG?**

What about restrictions?

It depends on the language in the gift.

Language about **what the money should be used for** (maintaining the building, pruning the rose bushes, or tuning all the pianos twice a year) = **RESTRICTED GIFT.** No specification, or language like "unrestricted" or "in its sole discretion" = **UNRESTRICTED GIFT.**

Language that includes **"permanent," "perpetuity," or "endowment"** = **PERMANENTLY RESTRICTED GIFT.** If it specifies a term of years or until the end of a certain project, like "until 2030" or "for ten years" or "until the building loan is paid off" = **TEMPORARILY RESTRICTED GIFT.** *(If there's no time restriction, then it's not a true endowment.)*

A. What are the restrictions? It depends on the language in the gift.
   a. If there's language saying what the money should be used for, then it's a **restricted** gift. You have to use it for that purpose. *Example: for tuning the pianos*
   b. If documentation about the gift contains the words "permanent" and/or "endowment", that indicates the intent for the principal to be held in perpetuity. That's a **permanently restricted** gift.
   c. If there's language in the gift specifying a restriction for a term of years or until the end of a particular project, that's a **temporarily restricted** gift.
   d. If documentation about the gift includes words like "unrestricted" or "at its sole discretion," then the church leadership gets to decide what to do with it and for how long. That's an **unrestricted** gift.

FAITH FOUNDATION NORTHWEST

What about restrictions?

Accepting a restricted gift is like signing a contract with the deceased donor.

Can't live with their restrictions?
Don't accept the gift.

(Exceptions will be covered by Brant and Dan next time.)

a. When your church accepts a restricted gift, it's like you've signed a contract with the donor to do what they've asked. You have to honor their wishes, or else your nonprofit status can be jeopardized and the donor's family could take legal action. If you can't live with the restrictions that a donor has placed on a gift, you must disclaim it (thanks but no thanks).

b. For example, an endowment for buying new choir robes for a church that doesn't have a choir.

c. This is why, when we promote planned giving, we always recommend restrictions be focused on what they care about, but allow for flexibility, like "music ministries" instead of choir robes, or "groundskeeping" instead of half acre memorial rose garden. If you have a chance to talk with people about their estate planning during their lifetime, you can make that same request.

d. Call the Foundation if you need help figuring out what to do: (800) 488-4179

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How big should it be?

Earnings: estimate 4% of the principal's value annually.

Principal: $10,000 produces $400/year. $100,000 produces $4,000/year. 1Million produces $40,000/year.

For example: choir robes need to all be bought at the same time. They cost about $100 each. If the endowment is for new choir robes, and there are 40 people in the choir, it's going to take 10 years for a $10,000 endowment to build up enough earnings to cover that expense.

Multiply the amount of money you need each year to fund a project by 25 to find out how big an endowment would need to be to fund that project in perpetuity.

CALL THE FOUNDATION if you need help running the numbers or thinking it through: (800) 488-4179

FAITH FOUNDATION NORTHWEST

What if we already accepted it?

You've implied a contract, and you need to do your best to meet the restrictions.

If it's really old and really small, a modification may be possible… Brant and Dan will cover that next time.

a. There are some situations where a gift is small enough, and old enough, and the original purpose is wasteful or impracticable, where a permanently restricted gift can be modified. The requirements for doing this are outlines in each state's legal code, in a section called the Uniform Prudent Management of Institutional Funds Act (or UPMIFA for short). Brant and Dan will cover that next time.

b. Call the Foundation if you need help figuring out what to do: (800) 488-4179

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What about quasi-endowments?

If the purpose and duration are set by church leadership rather than the donor, those are **designations**, not restrictions. **A designation can be changed or reversed by the entity who originally made it** (i.e. the Charge Conference).

A. What about **QUASI-ENDOWMENTS**?

a. If the purpose and duration are indicated by the church leadership rather than the donor, those are **designations**, not restrictions.

b. A designation can be **changed or reversed by the entity who originally made it**, i.e. the Charge Conference.

c. We recommend that the charge conference does it because it increases transparency and gives everyone a vote… both for the original designation, and for any subsequent re-designation.

d. TO DO THIS, YOU NEED A ROCK-SOLID PAPER TRAIL SHOWING THAT THERE WERE NO RESTRICTIONS PLACED ON THE GIFT BY THE DONOR, AND THAT THE CHURCH ITSELF MADE THE DESIGNATION

What about quasi-endowments?

Because they’re treated differently in the legal code, either **keep them in separate accounts** from true endowments (best option) or have a rock-solid paper trail for every dollar in the account.

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a. UPMIFA statutes: “Endowment fund” does not include assets that an institution designates as an endowment fund for the institution’s own use.

What are our responsibilities?

1. **Delegate** its care and keeping to a group that will review it at least once/year.
2. **Manage** the money or choose an investment manager.
3. **Spend** it according to donor's wishes.

Refer to discipline paragraphs 2533.5, 2534, and 2535

FAITH FOUNDATION NORTHWEST

What are our responsibilities?

This is a sample resolution provided for consideration. It may be reproduced and/or modified by the local church to meet its specific needs, but attention should be given to assure that the organization of the Permanent Endowment Program and the authority given to the Permanent Endowment Committee be in compliance with The Book of Discipline of The United Methodist Church. *We suggest that you invite a staff person from the United Methodist Foundation of the Northwest to review your document before it is presented to your Charge Conference for adoption.*

DRAFT CHARTER

The Permanent Endowment Program
TRINITY UNITED METHODIST CHURCH
EAST PARAKEET, NEW YORK

THE PURPOSE

The Endowment Program of Trinity United Methodist Church, East Parakeet, NY, hereafter referred to in this document as "the Endowment Program", is established for the purpose of providing members and friends opportunities to make charitable gifts to Trinity United Methodist Church that will become a permanent endowment of financial support and a living memorial. The Endowment Program is intended for purposes that are not generally a part of the church's established programs, which are funded through the annual operating budget of the church and the regular giving of its members. The Endowment Program is meant to help carry out the mission of the church to make Disciples of Christ.

ADMINISTRATION

The Endowment Program will be administered by the Permanent Endowment Fund Committee

1. **Delegate** its care and keeping to a group that will review it at least once/year.
Resource from the Foundation: Draft charter to establish an endowment committee, 6 questions to ask every year

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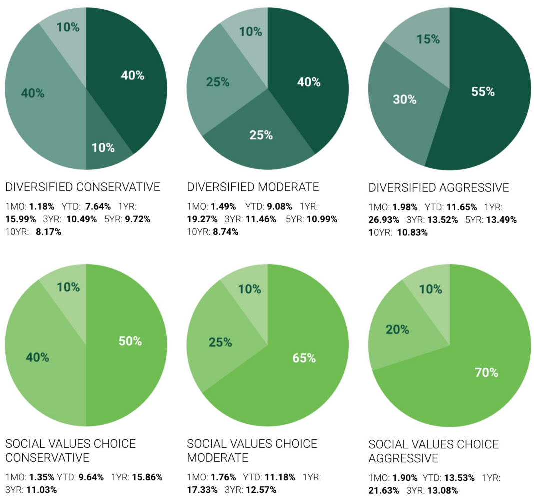
a. Delegate its care and keeping (Resource: this draft charter by the National Association of United Methodist Foundations is designed to help set up an endowment committee to manage the endowment. Resource: six questions to ask every year). If you don't have capacity to create an endowment committee, there are some other options. Call us: (800) 488-4179

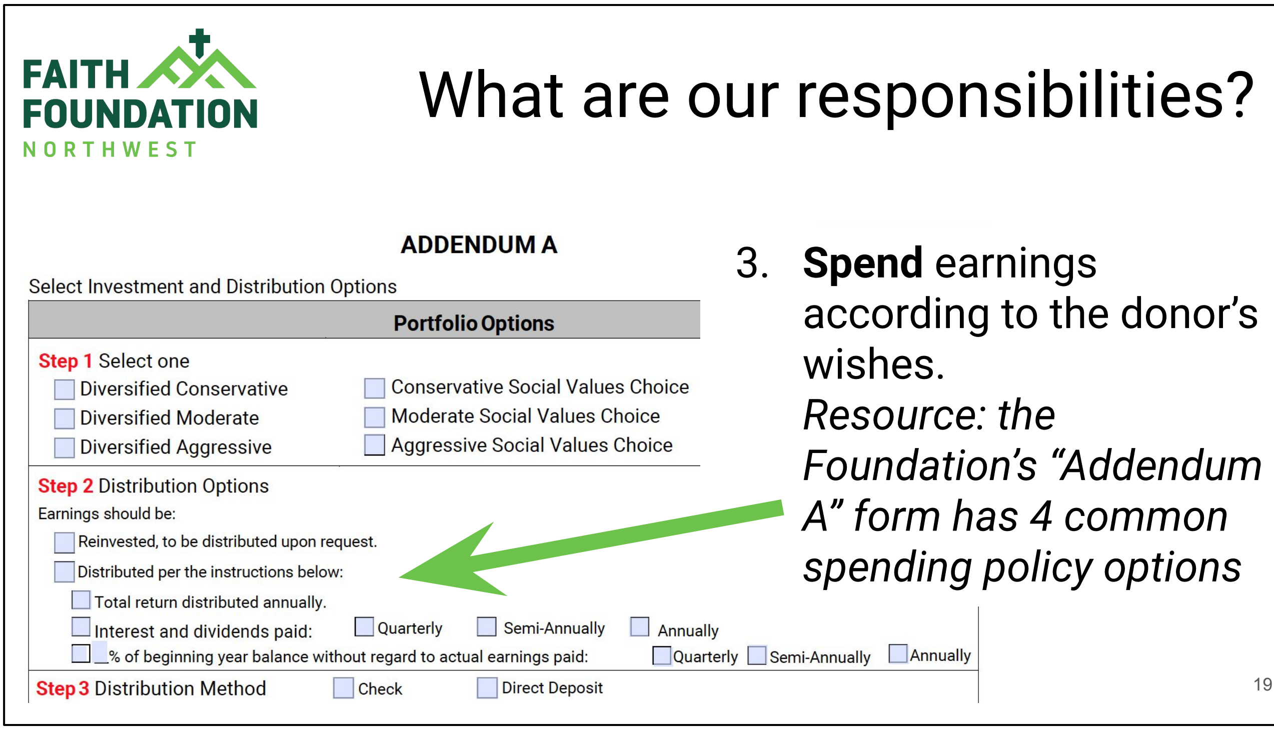
FAITH FOUNDATION NORTHWEST

What are our responsibilities?



2. **Manage** the money or choose an investment manager.
   Resource: this is exactly what the Foundation's portfolios and accounts are designed to do

a. Manage or find some entity to manage the money prudently. If you have a volunteer with enough time and expertise, they may be able to manage it in-house and save the church some money in fees. If you don't have that kind of volunteer capacity, you'll need to hire a money manager, such as a local broker or the Foundation. The Foundation is a good choice, this is exactly what our accounts are designed for.



a. Think about both purpose and duration.

b. PURPOSE: If it's a grant, make availability of grants known and provide directions for application.

c. DURATION: how often to spend it? Quarterly? Annually? Every few years? You need a spending policy. Some common options are described in the Foundation's Addendum A under "Distribution Options":

   i. Reinvested, to be distributed upon request. Pros: it grows. Cons: you forget to spend it.

   ii. Total return distributed annually. Pros: you remember to spend it. Cons: it doesn't grow as fast, and the amount of income can be unpredictable from year to year.

   iii. Interest and dividends paid. Pros: you remember to spend a little bit of it, and it grows. Cons: this is an outdated way of setting things up, because many diversified investments earn mostly capital gains rather than interest and dividends, so most of the earnings aren't being distributed. Also, the amount of interest and dividends can be unpredictable from year to year.

   iv. __% of beginning year balance without regard to actual earnings paid. Pros: you remember to spend it, you can count on a certain amount each year, and it can also grow. The Foundation often recommends a 4% annual distribution, because a conservative estimate would put the returns on our Diversified Moderate portfolio at 6% and inflation at 2%. This is defensible per UPMIFA while still allowing for a nice distribution each year.