

# Establishing a Permanent Endowment Fund

- Reasons to Establish A Fund
- Steps to Establish the Fund
- Sample Charter Document with Annotations
- Sample Resolutions
- A Model for Planned Giving Development

# **Why Should Our Church Establish a Permanent Endowment Fund?**

## **These Funds Can:**

- Encourage better stewardship.
- Provide an opportunity to give.
- Help care for facilities.
- Enhance ministries, mission and programs.
- To make a commitment to the future.

# An Endowment Fund Says: We believe...

- In the future of our church.
- In providing many opportunities to be generous and faithful.
- In providing as many ministries as we can.
- In building up the strength of our church for future generations.

# Endowment Funds Provide People an Opportunity To:

- Make a permanent gift from current assets or from an estate plan.
- Provide permanent ongoing support for a favorite ministry.
- Leave a legacy which will be remembered over time.

## How Do We Establish a Permanent Endowment Fund ?

- Recruit 5 –7 people to serve on a task force.
- The task force will analyze the need for the fund;
- Make a report and proposal to the Ad Council of the church for approval.
- Task force develops Endowment Fund Charter (operating policies).

## **And then...**

- Task force submits charter to the ad council for approval.
- Nominating Committee selects the Permanent Endowment Funds Committee. (may include task force members)
- Task force submits Endowment Fund proposal, charter, and Nominating Committee report to a duly called Charge Conference.

# After Charge Conference

## Approval

Plan an ongoing program to:

- Inform members about the fund.
- Educate members on the goals and objectives of the fund.
- Educate members on ways to give to the fund.
- Encourage members to give to the fund.
- Recognize and celebrate gifts to the fund.

## **A MODEL DOCUMENT TO ESTABLISH AN ENDOWMENT FUND**

**Annotated for Greater Understanding**

### **THE PURPOSE**

The Permanent Endowment Fund of the First United Methodist Church of Ourtown, Texas hereafter referred to as the “Endowment Fund,” is established for the purpose of providing members and friends the opportunity to make charitable gifts to First United Methodist Church that will become a permanent endowment of financial support and a living memorial. The Endowment Fund shall be subject to the laws of the State of Texas, the Book of Discipline of the United Methodist Church, and the actions of the Charge/Church Conference of The Church.

This opening statement assures that the Charge/Church Conference will be the ultimate authority for the direction of the Endowment Fund. It also assures that the Fund will operate within the structure of the United Methodist Church and the laws of the State of Texas.

The Endowment Fund will not be used for those parts of the church’s established programs which are normally included in the operating budget and which are funded through the regular giving of members. The earnings of the Endowment Fund will be used exclusively for the support of mission and outreach purposes as described by the following:

1. Youth Ministry
2. Children’s Ministry
3. Missions
4. Worship and Music Ministry
5. Care, Repair and Maintenance of the Facilities.

Most churches understand that endowment funds help support ministries and needs beyond the church operating budget. Permanent funds can be established to fund specific needs i.e. youth scholarships, building maintenance, etc. Specific language would be used to describe the restrictions under the purpose statement.

### **ADMINISTRATION**

The Endowment Fund will be administered by the Endowment Fund Committee at the direction of the Charge Conference. The Endowment Fund Committee will be accountable to the Administrative Board of the church. The membership of the Committee shall consist of eleven voting members five of whom are ex-officio members as follows:

Chairperson of the Administrative Council  
Chairperson of the Council on Ministries  
Chairperson of the Board of Trustees  
Chairperson of the Finance Committee  
The Senior Pastor



The six members-at-large shall be nominated by the Committee on Nominations and Personnel and elected for three year terms. The first group of six will hold staggered terms composed of members each with one two and three year terms. No member shall serve more than two consecutive three year terms (maximum of six years).

Eleven members is an appropriate size committee for an Endowment Committee in larger churches. Small and medium membership churches may need a smaller committee. Permanent Funds that are created to support specific ministries (such as music, youth, maintenance) should have leadership (both ex-officio and at large members) that are familiar with the need/ministry addressed by the fund.

Each year at its first meeting, the Endowment Fund Committee shall elect two officers: President and Secretary.

### **DUTIES OF THE ENDOWMENT FUND COMMITTEE**

1. Encourage endowment gifts to the Endowment Fund
2. Accept or reject gifts based on a determination of the appropriateness of the gift relative to its type, purpose, and possible liability.
3. Be responsible for the investment and management of the Endowment Fund.
4. Present at least one program annually to inform the congregation of gift opportunities through the Endowment Fund.
5. Prepare and present a report of activity each year to the Charge Conference, Administrative Council, and Trustees of the church. The report will include, but not be limited to, the following:
  1. Beginning and ending balances.
  2. Additions to the fund
  3. Distributions from the fund
  4. How the funds are invested (custodian, rate, terms etc.)
  5. Recognition of officers and board members

The duties listed above are a general summary based on reasonable expectations. Scholarship funds or any funds with special restrictions, or stipulations would state those objectives in the duties of the committee section.

## **INVESTMENT OF ENDOWMENT FUNDS**

The Endowment Fund is required to place funds in reasonable, prudent investments at Heartspring Methodist Foundation. The Endowment Fund's investment objective are:

1. Regular income at a reasonable rate.
2. To uphold the Social Principles of the United Methodist Church.
3. Reasonable and adequate growth or principal while not incurring significant risk to the principal.

The "prudent person rule" of investment states that when an individual has the responsibility to invest funds which do not belong to themselves, a reasonable, prudent approach should be taken. This plan of investment often defined as "a plan of investment which does not risk significant loss of capital and which provides an income return which would be deemed to be reasonable by normal standards by the prudent person.

A reasonable market level return (income from bonds and dividends from stocks) should be sought. Capital appreciation or growth in the fund principal will keep the funds purchasing power ahead of inflation.

In most cases a balanced fund or "growth and income" fund will achieve the above objectives. The reasonable expectation is for a committee not to be too conservative or too aggressive with risk. Since an endowment fund is permanent the short term risk due to market fluctuations is a prudent risk because holding period is long term. ( A permanent is clearly long term )

Every fund should have an investment policy statement to clearly state its goals and objectives. The statement above is presented as brief example. If the above rationale does not match the goals of the committee, then a policy should be written to clearly and effectively communicate the goals.

## **LIMITATIONS ON USE OF PRINCIPAL**

The objective of the Endowment Fund is to preserve the original principal and use only the income, dividends, and some capital appreciation. Any part or all of the principal may be withdrawn only in extreme and overwhelming circumstances, bordering on the survival of the church itself. Any withdrawal of principal must be approved by a majority vote of the Charge Conference of the church at which a quorum is present.

It is generally agreed Endowment Funds never touch the principal, except in dire emergency situations, or in the course of regular percentage distributions that might take place during a market correction. Language can be modified if necessary to be consistent with the objectives of the fund and the distribution plan.

## **DISTRIBUTIONS**

All endowment fund distributions will be made by the Administrative Council with recommendation from the Endowment Fund Committee. If the purpose of an endowment gift is designated, the designation by the donor must be honored. If the gifts are undesignated, distributions from the gifts can be made with the purpose of this Endowment Fund at the discretion of the Administrative Council with the recommendation of the Endowment Fund Committee. No distribution will occur until the corpus reaches \$50,000.

Distribution plans vary widely and should be consistent with the investment objectives of the fund. Sometimes major gifts, or testamentary gifts have restrictions or conditions attached. But it is widely accepted that the fund should continue to grow over time through reinvestment. If a fund is 100% in fixed income investments, a policy might be that 80 or 90% of the income can be distributed with the remainder being reinvested in the fund.

The most popular investment is the diversified (balanced) funds with approximately 60% equities and 40% fixed income. Endowment funds of this type will often make distribution of a fixed percentage each year. For example 5% per year. (The range is typically 5-8%) Other funds are set up to distribute 90% of the income and a fixed percentage of capital appreciation, if any. In periods when there has been a market decline in the value of assets, only the income portion is distributed.

## **GIFTS TO THE FUND**

1. Undesignated Gifts: Donors may make gifts or bequests to the Endowment Fund without designating a special purpose for the gift. All gifts not designated for a specific purpose may be used as directed by the Administrative Council in accordance with these operating guidelines.
2. Designated Gifts: Donors or groups of donors may make gifts or bequests with designation. The designation should be in keeping with the stated purposes of guidelines of the church. The income / earnings from the designated gifts will be used only as directed by the donor. The gift should be in keeping with these guidelines and in accordance with the Social Principles of the United Methodist Church.
3. All provisions of the Endowment Fund as to investment of funds, administration of funds, and limitations of the use of funds shall be applicable to both designated and undesignated gifts, and all gifts shall be made to the Endowment Funds and accepted subject to the terms and limitations set herein.

The above language is appropriate for a general endowment fund. A permanent fund may be established for a specific mission or ministry, such as a scholarship fund, or building maintenance fund, where the purpose of the fund is more clearly defined.

**LIABILITY**

In the absence of gross negligence or fraud, no member of the Administrative Council of the First United Methodist Church of Ourtown, Texas, the Endowment Fund Committee or Trustees shall be personally liable for any action made or omission with respect to the Endowment Fund.

**MERGER, CONSOLIDATION OR DISSOLUTION OF THE CHURCH**

If at any time the First United Methodist Church of Ourtown, Texas is lawfully merged or consolidated with any other church, all provisions hereof in respect to the Endowment Fund shall be deemed to have made in behalf of the merged or consolidated church with shall be obligated to administer the same in all respects and in accordance with the terms hereof. If the First United Methodist Church, Ourtown, Texas, should ever be dissolved without any lawful successor thereto, The Endowment Fund, including both principal and interest to date, shall be transferred to the Texas Annual Conference of the United Methodist Church, to be used as a permanent endowment fund in its ministry (in accordance with the Book of Discipline, 1996 and with particular reference to paragraph 2548.4.

**AMENDMENTS**

The terms and conditions of the Endowment Fund may be amended only by a majority vote at a duly announced Charge Conference of the First United Methodist Church, of Ourtown, Texas at which a quorum is present.

**SERVABILITY**

If any provisions or any application of any provisions of this program shall be held or deemed to be or shall be illegal, inoperative, or unenforceable, the same shall not affect any other provisions or any application of any provisions herein contained or render the same invalid, inoperative or unenforceable.

The above paragraphs insures that this permanent fund has a “durable” document that takes into account liability, merger or disbanding of the church and legislative changes. It also clearly addresses the way this document can be amended.

**SIGNED THIS \_\_\_\_\_ Day of \_\_\_\_\_, 19\_\_ by**

\_\_\_\_\_  
**Administrative Council Chair**  
**[First] United Methodist Church [Ourtown], Texas**

\_\_\_\_\_  
**Secretary, Charge/Church Conference**  
**[First] United Methodist Church [Ourtown], Texas**

The proceeding document was presented as one example of a document used to establish and govern a permanent endowment fund. A church or agency should develop a document that will address the circumstances and needs related to their particular situation. The document was significantly influenced by the Planned Giving Handbook. For additional information please contact the Heartspring Methodist Foundation at 713-533-3780 (Houston area) or toll free at 1-800-521-9617 (outside of Houston) or at our website, [www.heartspringmethodist.org](http://www.heartspringmethodist.org).

Last updated 05/07/09

## CALL AND NOTICE FOR A CHARGE CONFERENCE

The Charge Conference of the \_\_\_\_\_ United Methodist Church of \_\_\_\_\_, Texas is called in a special session to meet on \_\_\_\_\_ at 7:00 PM to consider:

1. Authorizing the formation of a PERMANENT ENDOWMENT FUND COMMITTEE under the authority of The Book of Discipline, 2004, Section 2532.5, to receive and manage permanent gifts for the church; and
2. Electing and confirming the initial members of the Permanent Endowment Fund Committee; and
3. Authorizing the Permanent Endowment Fund Committee to establish various permanent funds, to develop Guidelines for the investment and distribution of earnings of all permanent funds, and to have those policies adopted and confirmed by a meeting of the Administrative Board; and
4. Adopting a resolution that all permanent gifts designed for endowment purposes shall be under the control and management of the Permanent Endowment Fund Committee for the benefit of the church, and for the purposes established by the initial donors (if appropriate) and under the Fund's guidelines.

## Sample Resolution to Elect Endowment Fund Committee

WHEREAS, the (NAME) United Methodist Church of (CITY), Texas receives from persons and organizations, and

WHEREAS, an Endowment Fund Committee may be organized within this Church to receive and manage certain gifts, there for be it:

RESOLVED, that \_\_\_\_\_ , \_\_\_\_\_ ,  
\_\_\_\_\_, \_\_\_\_\_ , \_\_\_\_\_ ,  
\_\_\_\_\_, \_\_\_\_\_ , \_\_\_\_\_ ,

the persons elected as the Endowment Fund Committee meet within thirty days and proceed to organize and Endowment Fund Committee; and

RESOLVED, that the above named committee adopt a Policy Statement; and

RESOLVED, that the local church Endowment Fund Committee organized by those named above, receive and manage for this Church all permanent gifts designated for long range, general or specific purposes.

## **A SAMPLE AGENDA FOR THE ORGANIZATIONAL MEETING OF THE ENDOWMENT FUND COMMITTEE**

1. Election of Officers
2. Adopt a Policy Statement
3. Authorize the establishment of an investment/savings account and authorize those who are officers of the church to execute, sign, and deliver legal instruments
4. Adopt of fiscal year
5. Adopt a Management Agreement with the Heartspring Methodist Foundation



**Sample Resolution to Invest Endowment Fund with  
Heartspring Methodist Foundation**

RESOLUTION TO ENTER INTO AN INVESTMENT AGREEMENT WITH  
HEARTSPRING METHODIST FOUNDATION

WHEREAS, Heartspring Methodist Foundation is in the management of assets for the benefit of United Methodist Churches, and

WHEREAS, the Endowment Fund Committee of (NAME) United Methodist Church, (CITY), Texas has assets that it wishes the Heartspring Methodist Foundation to invest and manage; therefore it is:

RESOLVED, that the Endowment Committee enter into an Investment Agreement with Heartspring Methodist Foundation whereby the Heartspring Methodist Foundation may receive, manage, and invest assets transferred to it from this Endowment Committee, as provided in the Investment Agreement.

# **A Three-Year Plan For Promoting Your Church's Planned Giving Emphasis**

## **Year One**

Two educational presentations to Administrative Board.

### Mailings

February	Permanent Endowment Fund Promotional brochure.
May	Wills / Estate Planning brochures
August	General Planned Giving brochures

Quarterly articles in church newsletter

One-liners in bulletin once each month

Wills / Estate Planning Seminar

Memorial Observance and Service of Remembrance

## **Year Two**

Quarterly educational presentation to Administrative Board.

### Mailings -

February	Wills series brochure
May	Estate planning brochure
August	Wills series brochure
November	Life Insurance

Monthly articles in church newsletter

One-liners in bulletin twice each month

Wills / Estate Planning Seminars

Memorial Observance and Service of Remembrance

### **Year Three**

Two educational presentations to Administrative Board.

Mailings -

January	Wills series brochure
March	Charitable Trust brochure
May	Wills series brochure
August	Planned Giving brochure
November	Year end giving brochure

Monthly articles in church newsletter

One-liners in bulletin each week

Wills / Estate Planning Seminar

Target Group Presentations (i.e. UMW, UMM, Senior Adults)

Memorial Observance and Service of Remembrance

## Newsletter Short Articles

Each article is a Word text box that can be copied, and pasted, resized or reformatted into a Newsletter or other Publications.

**EVERYONE HAS A WILL** -- Under Texas law, every man, woman and child has a will. You either have the one you wrote, or the one the state wrote for you. If you have not decided how your estate will be divided, who will have custody of your children, etc., the state will decide those things for you. Scary, isn't it? A part of every Christian's stewardship of things and care for people includes these decisions. Check on your will today. For more information, call Heartspring Methodist Foundation, 5215 Main Street, Houston, TX 77002.

### **HOW TO GIVE YOUR HOUSE TO THE CHURCH. ..AND KEEP IT, TOO!**

Gifts of real estate with a life interest can often have good consequences for you and for your church. Members frequently leave the family residence to the church in a will, not knowing the tax and estate advantages of a Gift With Life Interest. The donor gets a tax deduction for much of the market value of the gift, but continues to pay the insurance & taxes and to live in the house for the life of the occupants. For more information, call 713-521-9383 or write the Heartspring Methodist Foundation, 5215 Main Street, Houston, TX 77002.

**APPRECIATED STOCK -A SMART WAY TO GIVE** The end of the year is coming, a time when many church members complete the year's pledge. If you have stock you bought at \$10 and it's now worth \$40, and you sell it to contribute to your church, you'll have to pay capital gains on \$30 per share. However, if you give the stock outright, you get a charitable deduction for the market price of the stock, you avoid capital gains tax and your church gets more support when it sells the stock. Everybody benefits. For more information, call 713-521-9383. Heartspring Methodist Foundation 5215 Main Street, Houston, TX 77002.

**GIFT ANNUITY -A GIFT THAT GIVES BACK** -Mrs. Jones has \$50,000 in a CD at the bank, paying 2%. She earns \$1,000 per year, approximately \$800.00 after taxes. She intends to leave this to the church in her will.

Mrs. Jones is 78. If she uses the \$50,000 to create a gift annuity, she'll receive \$3,350 per year (based on age), a tax deduction of \$24,462 on the gift, and \$2,553 of her annual income is tax free.. Her church will receive the remainder balance after her life. For more information on gift annuities and other life income gifts "gifts that give back", call Heartspring Methodist Foundation 713-521-9383

**SOME REAL ESTATE GIFTS ARE BETTER THAN CASH** If you own a few acres in the country, you may have substantial capital gain in it. Also, while you're paying county and school tax, it may not be earning any income. So, instead of a large cash gift on your church's project, you may want to give the land. You quit paying tax on it, you avoid capital gains tax, you don't interrupt your income, and you've made the church gift you wanted to make. For more information on using real estate to fund gifts to your church or charity call the Heartspring Methodist Foundation at 713-521-9383.

**NOT ALL GIFTS ARE CASH** There are times, folks want to give but don't have the cash to write a large check to the church or charity. However, it is often better to give stock, real estate, royalties, etc. It can often mean a lower tax bill, a life income from the transaction, and more in the future for the church. To get the figures and know the facts, call the Heartspring Methodist Foundation at 713-521-9383 or write to 5215 Main Street, Houston, TX 77002.

**GIFTS THAT GIVE BACK** Strange as it seems, there are ways to give to the church endowment that actually increase your income during your lifetime. Gift Annuity, Annuity Trust and Unitrust all have the advantage of increased income, tax deduction and stability, with the remainder going to the church after your lifetime. Other gifts, such as real estate that produces no income, can reduce your tax and maintenance load without taking any income out of your budget. For more information, call the church or the Heartspring Methodist Foundation at 713-521-9383.

**INSURANCE POLICIES -HIDDEN TREASURE?** Most of us do not realize the financial potential in insurance policies. If you have a policy that was bought for a purpose that no longer exists, it can be a very effective gift to the church endowment. It was bought to protect a business investment that has matured, or it was bought to benefit someone not now living, etc.

It's also possible to buy a policy on your own life, give it to the church, take a tax deduction for the premiums paid, and in five or six years have it paid off. Thus, for an investment of a few thousand dollars, you might leave the church \$50,000. For more information call the Heartspring Methodist Foundation at 713-521-9383.