

# Saint David's Episcopal Church Endowment Fund Policies and Guidelines

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# ENABLING RESOLUTION

## ESTABLISHING A GENERAL ENDOWMENT FUND FOR ST. DAVID'S EPISCOPAL CHURCH KENNEBUNK, MAINE

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WHEREAS, Christian stewardship involves the faithful management of all of God's gifts – time, talent, the created world, and money, including accumulated, inherited and appreciated assets; and

WHEREAS, Christians can give to the work of the Church through a variety of gift vehicles, in addition to cash, including bequests in wills, life income gifts, annuities, trusts, life insurance policies, real estate, securities and other assets; and

WHEREAS, it is the desire of this parish to encourage, receive and administer these gifts in a manner faithful to the loyalty and devotion to God expressed by the donors and in accord with the canons of the Episcopal Church and the Diocese of Maine and the policies of this Parish:

THEREFORE BE IT RESOLVED, that this Parish, through action of its Vestry, establishes a new and separate fund to be known as "The Endowment Fund" (hereafter called the "FUND") of St. David's Episcopal Church, 138 York St., Kennebunk, Maine.

BE IT FURTHER RESOLVED that the purpose of the FUND<sup>1</sup> is to enable the PARISH to fulfill its mission more completely by developing its ministries beyond what is possible through its annual operating funds. Distributions from the fund therefore shall be limited to: (i) maintenance and support of the physical plant of the PARISH; (ii) outreach ministries and grants; (iii) seed money for new ministries and special one-time projects; and (iv) such other purposes as are specifically designated by donors to the PARISH whose gifts are included in the FUND.

BE IT FURTHER RESOLVED that the distributions from the FUND shall not be made to the operating budget of the PARISH except to fulfill the purposes described above<sup>2</sup>.

BE IT FURTHER RESOLVED that ENDOWMENT FUND BOARD (hereafter called the "BOARD") is hereby established. The BOARD shall be the custodian of the FUND and its composition and duties are described in the following "Plan of Operation," which may be amended from time to time.

## PLAN OF OPERATION

### 1. Composition of the Fund Board

THE BOARD shall consist of three (3) regular members<sup>3</sup> all of whom shall be members in good standing of St. David's Episcopal Church. They shall be appointed by the Vestry. Additionally, the Rector and a Warden shall be ex-officio members of the BOARD without votes. Except as herein limited, the term of each non-permanent member shall be three (3) years. Upon adoption of this resolution, the Vestry shall appoint members as follows: one (1) member shall be appointed for a term of three (3) years; one (1) member for a term of two (2) years and one (1) member for a term of one (1) year. Thereafter, the Vestry shall appoint the necessary number for a term of three years. No member shall serve more than two consecutive three (3) year terms. After a lapse of one (1) year, former BOARD members may be reappointed. In the event of a vacancy on the BOARD, the Vestry shall appoint a member to complete the unfulfilled term. Upon the completion of the term, that person would be eligible for reappointment to a normal three (3) year term.

### 2. Roles of the Fund Board<sup>4</sup>

The BOARD will manage the invested funds and oversee distributions from the FUND in compliance with the approved Spending Rule (*Section B*) and in accordance with the purposes as defined in this resolution.

### 3. Frequency of Meetings

The BOARD shall meet at least quarterly, or more frequently as deemed by it in the best interest of the FUND.

### 4. Quorum

A quorum shall consist of all three (3) members. The affirmative vote of all three (3) members shall be necessary to carry any motion or resolution.

### 5. Officers and Duties

The BOARD shall elect from its membership a chairperson, a treasurer and a secretary. The chairperson, or member designated by the chairperson, shall preside at all BOARD meetings. The secretary shall maintain complete and accurate minutes of all meetings of the BOARD and supply a copy thereof to each member of the BOARD. Each member shall keep a complete set of minutes to be delivered to his or her successor. The secretary shall also supply a copy of the minutes to the Vestry in a timely manner. The Treasurer<sup>5</sup> of the Fund Board shall maintain complete and accurate books of account for the FUND.

### 6. Reports

The BOARD shall report on a quarterly basis to the Vestry and, at each annual meeting of the congregation, shall render a full and complete account of the administration of the FUND during the preceding year.

### 7. Professional Counsel

The BOARD, at the expense of the FUND, may provide for such auditing, professional counseling on investments or legal matters as it deems to be in the best interests of the FUND.

## **8. Investments**

All funds will be invested in accordance with the investment guidelines established in the Investment Policy Statement (*Section A*).

## **9. Funds for Specific Purposes**

At the discretion of the Vestry, the BOARD may establish sub-funds within the FUND for specific purposes.<sup>6</sup>

Also, donors may designate their gifts for a specific purpose. Any donor-designated gifts must be approved by the BOARD and the Vestry. They must meet the requirements of the Donor Designated Fund Policy (*Section D*).

## **10. Liability of Fund Board Members**

Members of the BOARD shall be liable for any acts or omissions committed by them (including losses which may be incurred upon the investments of the assets of the FUND) only to the extent that such acts or omissions were not in good faith or involved intentional misconduct. Each member shall be liable only for his/her own intentional misconduct or for his/her own acts or omissions not in good faith, and shall not be liable for the acts or omissions of any other members. No member shall engage in any self dealing or transactions with the FUND in which the member has direct or indirect financial interest and shall at all times refrain from any conduct in which his/her personal interests would conflict with the interests of the FUND.

## **11. Holding of Assets, Action to Sell**

All assets are to be held in the name of the Endowment Fund of St. David's Episcopal Church. Actions to hold, sell, exchange, rent lease, transfer, convert, invest, reinvest, and in all other respects to manage and control the assets of the FUND, including stocks, bonds, mortgages, notes, warrants of other securities, are to be made by a delegated member of the BOARD on behalf of the BOARD.

## **12. Acceptance of Gifts to the Endowment Fund**

In the absence of a Gift Acceptance Policy of the Parish, the BOARD will establish a Gift Acceptance Policy (*Section E*) through which decisions will be made as to whether a gift to the FUND or to the Parish shall be accepted.

## **13. Distributions from the Fund**

It is the intent of this resolution that the FUND shall be managed as a true endowment employing the restriction that the principal shall not be invaded. Distributions from the FUND, however, shall be made utilizing a "Total Return Policy" that incorporates a designated percentage of the corpus which will be available for expenditure annually. The BOARD shall formulate a policy defining the spending rules and protocols (*Section B*) with the approval of the Vestry. The policy will provide for the withdrawal and use of the funds consistent with the stated purposes of the FUND as defined in the first section of this Resolution. No portion of the principal amount of the FUND shall be "borrowed", including any "temporary usage" for other needs of the Parish.

**14. Amendment of this Resolution**

Any amendment to this Resolution shall be adopted by a vote of at least two-thirds (2/3) of the membership of the Vestry.<sup>7</sup>

**15. Disposition or transfer of FUND**

In the event the PARISH ceases to exist, whether through merger, dissolution, or some other event, disposition or transfer of the FUND shall be at the discretion of the Vestry in conformity with the approved congregational constitution and in accord with diocesan canons and the Bishop of the Diocese of Maine. It may be appropriate to consult with the Episcopal Church Foundation to determine the manner in which Fund obligations will be met after the PARISH ceases to exist.

The foregoing resolution is hereby adopted by the Vestry this 21<sup>st</sup> day of September, 2010.

St. David's Episcopal Church  
Kennebunk, Maine

William G. Rhines Jr. (print name)

[Signature]  
Warden

Attest:  
Jan E. Inglis  
[Signature]  
Clerk

**ENDOWMENT FUND POLICIES AND GUIDELINES  
FOR  
ST. DAVID'S EPISCOPAL CHURCH  
KENNEBUNK, MAINE**

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**SECTION A**  
*Investment Policy Statement*

**Purpose**

This Investment Policy Statement establishes the philosophy, guidelines and investment objectives for managing the investments of the FUND.

**Responsibility**

The ultimate responsibility for managing the FUND resides with the Vestry which has chosen to delegate portions of its responsibility to the BOARD, which will administer the portfolio of the FUND in accordance with these guidelines, as adopted and amended from time to time. These guidelines shall be reviewed at least annually by the BOARD to determine whether they should be amended or remain unchanged. The BOARD may choose to employ an outside investment manager.

**Objectives**

The assets of the FUND are to be invested with the same care, skill and diligence that a prudent person would exercise in investing institutional endowment funds. The primary objective will be to provide long-term growth of principal and income without undue exposure to risk.

**Investment Guidelines**

***Time Horizon:***

The FUND's investment objectives and strategic asset allocation are based on a long-term time horizon.

***Risk Tolerance:***

Because of its long-term time horizon, the FUND can tolerate some interim fluctuation in market value and rates of return in order to achieve its objectives. High level risk, high volatility and low quality rated securities, however, are to be avoided.

***Prohibited Investments:***

The BOARD shall not invest in private placement, restricted stock or other illiquid issues, commodities' futures, arbitrage and other uncovered options, and shall not engage in short sales, margin transactions or other similar specialized investment activities.

***Portfolio Diversification:***

The investment objectives should be achieved through a diversified portfolio, which may include but is not limited to, large-cap, mid-cap, small-cap U.S. equities, international equities (both developed and emerging markets), bonds and cash.

***Investment Discretion:***

These guidelines are not intended to restrict or impede the efforts of the BOARD to attain the FUND's objectives, nor are they intended to exclude the BOARD from taking advantage of appropriate opportunities as they arrive. The BOARD shall have discretion and flexibility to implement the objectives and policies herein set forth.

***Asset Allocation***

Because securities markets may vary greatly throughout a market cycle, the BOARD may change the asset mix of the FUND within the following ranges as long as that mix meets the overall objectives and is consistent with the policy guidelines herein set forth. The FUND shall be allocated between equity investments and bonds and/or other fixed income securities.

The strategic target allocation shall be within the following ranges (plus or minus 5%):

EQUITIES:	40% - 60%
FIXED INCOME:	60% - 40%
CASH:	0% - 20%

The target allocation among equity classes shall be determined periodically (and at least annually) by the BOARD in consultation with the investment manager(s) to reflect a prudent response to current market conditions.

***Investment Goals***

While maintaining the asset mix within the above guidelines, the BOARD accepts a risk level for the FUND's overall investment program that is intended to produce a total annual return adequate to cover these components: expenditures from the FUND (as determined annually by the BOARD under the Spending Rule Policy), inflation and growth of the FUND.

***Reporting***

The quarterly report provided by the BOARD to the Vestry will include the fund value, any changes in the asset allocation strategy, and the investment performance. The report shall reflect compliance with the objectives, policies and guidelines set forth herein.

**SECTION B**

***Spending Rule Policy***

Money will be distributed from the FUND upon written request of the Vestry and with the approval of the BOARD for those uses which conform to the purposes and restrictions established by donors or incorporated in the Enabling Resolution.

Funds available for distribution will be determined by using a total return principle, i.e., return derived from dividends and interest as well as realized and unrealized capital gains.<sup>8</sup> The funds available for distribution during any one year will be limited to a percentage of the market value of the corpus that is

based on a three-year rolling average,<sup>9</sup> with measures taken at the end of each of the preceding twelve quarters. The market value for this purpose will be taken net of the fees for investment management.

The percentage of the FUND made available for distribution shall be determined each year by the BOARD and will normally fall in the range of three to five percent. In so doing, market performance of the portfolio will be an important consideration. It will be the goal of the BOARD to grow, or at least maintain, the purchasing power of the FUND taking inflationary effects into account.

Any unexpended funds from those available for distribution in a given year will be accrued and will continue to be considered available for distribution in subsequent years unless otherwise designated by action of the BOARD with the approval of the Vestry.

Expenses related to the management and administration of the FUND will be deducted from the funds available for distribution.

### SECTION C *Disposition of Bequests Policy*

This policy statement governs the disposition of *bequests* which, for purposes of this statement, will mean any type of gift in which the assets are transferred upon the death of the donor. The assets may be in any form, such as cash, securities, personal property, real property, etc.

The bequest may identify the beneficiary in one of two general ways: *St. David's Episcopal Church of the Episcopal Diocese of Maine* or some other wording such as *St. David's Church, Kennebunk, Maine* or *The Endowment Fund of St. David's Episcopal Church* or similar wording.

Bequests with *St. David's Episcopal Church* as beneficiary can be of two general types:

- a. **Restricted:** The donor has identified a specific purpose(s) to which the funds should be directed. The Vestry will guarantee that the use(s) to which those funds are applied is faithful to the donor's wishes. The funds may be directed to their designated purpose(s) either as an endowment, in which case they normally would become a designated fund within the Endowment Fund, or by direct expenditure of the funds through the Treasurer of the Parish.
- b. **Unrestricted:** The expectation is that such a bequest will be transferred to the Endowment Fund. Such transfers are intended to be held in perpetuity. This policy specifically acknowledges that from time to time truly extraordinary needs of the parish may arise to necessitate an exception to this policy.

In such instances the following procedure will apply:

The Rector and Wardens of the Parish will assess the particular circumstances giving rise to a perceived need to make an exception to the policy. Such circumstances should be judged to be truly extraordinary and that no other financial resources of the Parish are available or are expected to become available in time to fulfill the urgent need. If an exception is deemed appropriate, the Rector and Wardens will make a recommendation. Final authority for granting such an exception to the policy will rest with the Vestry, and require a two-thirds majority vote and a written record of the vote.

Bequests designating the **Endowment Fund** as beneficiary are automatically transferred to the Endowment Fund upon receipt. If the bequest was given for a designated purpose, then the value of the assets will be applied to establish a designated fund of the Endowment Fund, as provided for in a separate



policy. If the bequest to the Endowment Fund is otherwise undesignated, the assets will be directed to that portion of the corpus of the Endowment Fund where earnings are unrestricted

#### **SECTION D** *Donor-Designated Fund Policy*

A separate and designated fund within the FUND may be established for gifts in the amount of \$25,000<sup>10</sup> or more. These assets are merged with other assets of the FUND for investment purposes, but the identity and designated purpose of each fund is preserved individually.

The fund is established effective the last day of the quarter in which the gift is received. The value is determined either by the actual value, if received by the FUND in cash, or the market value of the assets determined on the date the fund is established.

Income, realized gains or losses, and unrealized gains or losses are allocated quarterly to each fund based on its market value relative to the total market value of the FUND at the end of the previous quarter. New gifts are then added and withdrawals are subtracted to arrive at the new value of the designated fund on the last day of the quarter. Expenditures are limited to the purposes specified in the designation and are governed by the FUND's Spending Rule.

#### **SECTION E** *Gift Acceptance Policy*

##### **Purpose**

This gift acceptance policy will provide guidelines to representatives of St. David's who may be involved in the acceptance of gifts, to outside advisors who may assist in the gift planning process, and to prospective donors who may wish to make gifts to St. David's. This policy is intended only as a guide and allows for some flexibility on a case-by-case basis. The gift review *process* outlined here, however, is intended to be followed closely.

##### **Gift Review Committee**

Any questions which may arise in the review and acceptance of gifts to St. David's will be referred to the Gift Review Committee. The Committee, unless otherwise designated by the vestry, will be comprised of the full Endowment Fund Board.

##### **Cash**

1. All gifts by check shall be accepted by St. David's regardless of amount.
2. Checks shall be made payable to St. David's. In no event shall a check be made payable to an individual who represents St. David's or the church in any capacity.

##### **Publicly Traded Securities**

1. Readily marketable securities, such as those traded on a stock exchange, can be accepted by St. David's.
2. The value of the gift of securities is the average of the high and low prices on the date of the gift.
3. A gift of securities to St. David's is usually liquidated immediately.

##### **Closely Held Securities**

1. Non-publicly traded securities may be accepted after consultation with the Gift Review Committee.
2. The Gift Review Committee will explore methods for liquidation of the securities through redemption or sale prior to acceptance. The Gift Review Committee will try to determine:

- a) An estimate of fair market value
  - b) Any restrictions or transfer
  - c) Whether and when an initial public offering might be anticipated
3. No commitment for repurchase of closely held securities shall be made prior to completion of the gift of the securities.

#### **Real Estate**

1. Any gift of real estate must be reviewed by the Gift Review Committee.
2. Normally, the donor is responsible for obtaining and paying for an appraisal of the property. The appraisal will be performed by an independent and professional agent.
3. The appraisal must be based upon a personal visitation and internal inspection of the property by the appraiser. Also, whenever possible, it must show documented valuation of comparable properties located in the same area.
4. The formal appraisal should contain photographs of the property, the tax map number, the assessed value, the current asking price, a legal description of the property, the zoning status, and complete information regarding all mortgages, liens, litigation or title disputes.
5. St. David's reserves the right to require an environmental assessment of any potential real estate gift.
6. The property must be transferred to St. David's prior to any formal offer or contract for purchase is made.
7. The donor may be asked to pay for all or a portion of the following:
  - a) Maintenance costs
  - b) Real estate taxes
  - c) Insurance
  - d) Real estate broker's commission and other costs of sale
  - e) Appraisal costs
8. For gift crediting and accounting purposes, the value of the gift is the appraised value of the real estate. This value may be reduced, however, by the costs of maintenance, insurance, real estate taxes, broker's commission and other expenses of sale.

#### **Life Insurance**

1. A gift of a life insurance policy must be referred to the Gift Review Committee.
2. St. David's can be named a contingent beneficiary or the beneficiary of a percentage of a life insurance policy.
3. The Vestry will accept **ownership** of a life insurance policy as a gift only if St. David's is named as the owner and beneficiary of 100% of the policy.
4. If the gift is a paid-up policy, the value for gift crediting and accounting purposes is the policy's replacement cost.
5. If the policy is partially paid-up, the value for gift crediting and accounting purposes is the policy's cash surrender value. (For IRS purposes, the donor's charitable tax deduction is equal to the interpolated terminal reserve, which is an amount slightly in excess of the cash surrender value.)

#### **Tangible Personal Property**

1. Any gift of tangible personal property shall be referred to the Gift Review Committee prior to acceptance.
2. Gifts of jewelry, artwork, collections, equipment and software shall be assessed for their value to St. David's. Their value may be realized either by being sold or used in connection with the parish's exempt purpose.

3. Depending upon the anticipated value of the gift, a qualified outside appraiser may be asked to determine its value.
4. St. David's shall adhere to all IRS requirements relating to valuation and disposition of gifts of tangible personal property and will provide appropriate forms to the donor and IRS.

#### Deferred Gifts

1. St. David's encourages deferred gifts in its favor through any of a variety of vehicles:
  - a. Charitable gift annuity (or deferred gift annuity)
  - b. Pooled income fund
  - c. Charitable remainder trust
  - d. Charitable lead trust
  - e. Bequest
  - f. Retained life estate
2. St. David's (or its agent) shall not act as an executor (personal representative) for a donor's estate. A member of the parish staff serving as a personal representative for a member of the parish does so in a personal capacity and not as an agent of the parish.
3. St. David's (or its agent) shall not act as trustee of any charitable remainder trust.
4. St. David's may invite prospective donors to consider gift vehicles offered by The Episcopal Church Foundation (specifically, Charitable Remainder Trusts, Charitable Gift Annuities and the Pooled Income Fund).
5. When donors are provided planned gift illustrations or form documents, these will be provided free of charge. For any planned gift related documents, materials, illustrations, letters or other correspondence, the following disclaimer should be included:

*St. David's strongly urges you to consult with your attorney, financial and/or tax advisor to review this information provided to you without charge or obligation. This information in no way constitutes legal or financial advice.*

6. All information obtained from or about donors/prospects shall be held in the strictest confidence by St. David's staff and volunteers. Neither the name, the amount, nor the conditions of any gift shall be published without the express written or oral approval of the donor and/or beneficiary.
7. St. David's will seek qualified professional counsel in the exploration and execution of all planned gift agreements. The parish recognizes the right of fair and just remuneration for professional services.
8. The Vestry, upon the advice of the Gift Review Committee, reserves the right to decline any gift that does not further the mission of the parish. Also, any gifts that would create an administrative burden or cause the parish to incur excessive expenses may be declined.

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## Endnotes

<sup>1</sup> The purposes can be adapted to your church's particular circumstances; however, you want to be specific enough to give donors a clear sense of how the funds will be used, but at the same time general enough to allow future vestries to respond to the needs of their time.

<sup>2</sup> Using the return from endowment funds for annual operating expenses can cause a number of problems. If the only purpose of the endowment fund is to supplement the annual operating budget of the church, it often has a corrosive influence on annual stewardship and saps the vitality of the church's mission. If the annual budget depends upon the endowment to make ends meet, in years of market decline there will be budget shortfalls or a strong temptation to dip into endowment principal.

<sup>3</sup> Smaller churches may have a board of three members. The important principle embedded in the suggested board composition is to appoint members who do not have the responsibility of balancing the annual budget. There is an intentional check and balance between short-term and long-term interests built into this structure.

<sup>4</sup> The endowment board manages the investments, oversees distribution of the funds for the purposes agreed upon, and makes sure that the rules are followed, but does not determine specifically how the funds will be used. That is a vestry decision.

<sup>5</sup> Often the treasurer of the church serves as treasurer of the endowment fund; however, the best practice would be for the endowment fund to have its own treasurer.

<sup>6</sup> Some endowment funds establish sub-accounts or "pockets" within the endowment to encourage donor interest, such as funds for outreach, scholarships, music, Christian Education, etc. While these may encourage donor interest they also restrict the use of the funds for specific purposes which over time may or may not conform to the current needs of the church.

<sup>7</sup> Requiring a 2/3 vote of the vestry to amend the Enabling Resolution is one way to protect the principal of the board-designated endowment funds. Some churches set the bar higher by requiring a 2/3 vote of the full congregation in addition to the vestry vote.

<sup>8</sup> A "total return" spending policy establishes value based on income, dividends, and capital appreciation (depreciation). An "income only" policy considers only the interest earned and dividends paid.

<sup>9</sup> Some churches use a five-year rolling average to smooth out the ups and downs of the market. Churches just starting out that do not have a multi-year average sometimes apply their spending rule to 80% or 90% of the first year net average value.

<sup>10</sup> The minimum gift required to establish a donor-designated fund can be higher or lower than the \$25,000 listed here. The purpose of the minimum is to avoid accepting multiple small gifts that are restricted by the donor and which require separate accounting.