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# **Endowment Fund Guide for Unitarian Universalist Congregations**

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June 2003 Edition

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## Introduction

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This guide is designed to provide information to help Unitarian Universalist congregations to create and administer permanent funds that can provide additional financial security to their work and witness as religious liberals. The ideas presented here have been compiled from many sources, drawing from the expertise and experience of past and present Unitarian Universalist Association staff and fund-raising consultants, UU ministers and lay leaders, as well as resources from other religious traditions and the world of not-for-profit organizations.

The UUA Congregational Finance Team formed in 1995 to focus on developing stewardship resources for congregations. This guide reflects the dedication and commitment of that team. The first edition of this Guide was compiled and produced by the UUA Gift and Estate Planning Office in the development department in 1999. The editors would like to thank Wayne Clark, Carla Kindt, Susan Erickson, Jerry Gabert, Jerry King, Ralph Mero, David Rickard, Don Ross, and countless endowment committees in UU congregations whose questions, ideas, resources, and determination have made this guide the work of a loving community.

Marcy Bailey-Adams  
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## Purpose

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### **What is the purpose of an endowment fund in the life of a congregation?**

There are a number of reasons for a Unitarian Universalist fellowship, society, or church to establish, support and manage an endowment fund. Operating funds, capital reserves, and endowment funds are three legs of one stool upon which a healthy and mature organization balances its work and service.

Endowments provide longevity and emergency assistance. They can also provide additional monies for maintaining a historic building or funding social justice projects or establishing a permanent arts program—necessities that cannot be funded by the general revenue provided annually by the congregation's members and friends.

Creating and administering an endowment fund is one of many ways to care for Unitarian Universalism, a free faith, a covenanted community of people. Unitarian Universalism is a gift we have received from others. We sit in the shade of trees we did not plant. The trees help us and rely on us. We are the gardeners, the trustees, the stewards who will ensure that the trees are healthy and growing for the next generation to enjoy and “husband.” As religious people who cherish freedom, search for truth, and work for justice and mercy in the world, the trees of our free faith will be our legacy.

Good stewardship of financial resources is a very important part of the ethical and religious development of individuals and groups. Making the best use of the gifts we have been given is a life-long learning process. Why not learn some of these skills in a UU congregational setting? Many church groups find that establishing and administering an endowment fund challenges assumptions about the role of money in a religious organization. It stretches individual learning and provides new opportunities to put UU values and vision into practice. Working together on financial matters offers teens, young adults, and “elders” a unique opportunity to learn from each other and do something of vital importance for the health and vitality of a congregation.

The purpose of an endowment is to help secure, strengthen, and extend the long-term survival and mission of Unitarian Universalism and your congregation. In very simple terms, an endowment fund is a savings account, a security cushion that can be used to get you through an emergency. In addition to providing a safety net for the future of your work together as religious people, it can help you today in your common work to strengthen and extend the reach of Unitarian Universalism in your community. Distributions from an endowment can help you make this world a better place.

At its best, an endowment fund further secures an already stable financial situation. Everyone in a congregation or fellowship can and should take pride in the endowment fund, understand its purpose and place in the life of a religious community, and be invited to participate in designing and framing its goals, governance, and administration. When that work is done, consider ways to include young and old in the year-to-year management and decision-making related to your endowment.

There is no single “right way” to do this that every group should follow, but there are some guidelines that will help you “get it right” for your congregation. First, a few words on what an endowment is NOT.

**Will an endowment fund help us meet our operating expenses?** No. If annual donations from church members and friends do not adequately support day-to-day operations, an endowment fund will not rescue the situation. In fact, it will probably do just the opposite. Experience in both UU groups and other mainline Protestant churches has shown that reliance upon endowment distributions to meet annual operating expenses erodes rather than strengthens the commitment of individual members. In New England states, for example, a number of congregations with endowment funds of six figures have so few members they are on the verge of closing their doors and folding their tent. They make budget every year, but for what?

Annual contributions should be sufficient to cover staff salaries and benefits, pay for routine maintenance and utilities, purchase supplies and equipment, and run the programs that make a congregation a congregation. A group that leans too heavily and for too long a time on endowment funds to meet operating costs, risks both losing the commitment of the people and creating a dangerous habitual dependence. As with any addiction, it is easier to start the habit than it will ever be to break it. Better not to start at all. In normal circumstances, members and friends contribute what is needed to “do church.”

**If there is a compelling need, we recommend that an endowment fund provide no more than 10% of a congregation or fellowship’s annual operating expense—and then only as a temporary measure.**

**The endowment fund is there to help in times of financial crisis, like a personal savings account or an inheritance you hope to pass on to your loved ones.**

**It is not “mad money,” nor a wealthy patron who gets you out of trouble when you overspend or fail in your planning.**

All too often we act as though our fellowships and congregations operate in a realm entirely different from our daily lives. Perhaps we believe that a religious life is despoiled by money. Whereas money is a primary means to securing and protecting what is generally important and meaningful to us—food, shelter, clothing, health care, education, transportation, entertainment, and charitable organizations; when it comes to matters of the heart and ethical and spiritual life, somehow money loses some of its relevance. “Money can’t buy happiness.” But it can pay a minister and fund a full benefits package for every member of your staff. It can provide life-span religious

education. It can help operate a homeless shelter. It can feed the hungry. It can create meaningful programs and services.

In the helping professions, providers know that clients who pay their way are more committed to the healing process. Similarly, when everyone in a congregation contributes to the annual canvass, everyone is a stakeholder, invested in making a success of it. What if our support of our congregations was equal to the value they add to our lives? Would our lay and professional leadership spend most of their time worrying about where the money will come from to meet basic expenses? Shouldn't they, instead, find joy in fulfilling the mission and outreach of a religious community?

**Will an endowment fund help us to finance a building project?** Some UUs think that an endowment fund is the best answer to the need for a new building. It's not. Nothing can replace the time-honored capital campaign. A capital fund drive raises funds by way of pledges to contribute to a specific project over the course of 3-5 years. You need current gifts to pay for expansion, a new building, or a site for a future building. Like using the endowment to fund operating expenses, using it to finance a major capital expense is to sidestep sound financial management and planning.

The **UUA Congregational Fundraising Services** can provide a trained consultant, a Unitarian Universalist, who can help your congregation plan and complete a successful capital campaign and obtain loans and grants that are available through the UUA and commercial financing. The first step is to complete an appraisal and get your house in order. The annual canvass needs to be on strong footing and your financial practices in good order so that you can present a convincing plan for how you will fund a project and maintain it once it is completed.

Of course, if you already have an endowment fund and it is distributing more money than you can spend, then it would be only prudent to use it to help finance a project like this. The critical piece is to make sure that the core value of the endowment is not seriously eroded—even better, that it appreciates in value **at least to keep pace with inflation (historically 4%)**. Unfortunately, few societies or congregations have more money than they can possibly spend.

More often, if there is an endowment, it is a small fund and the whole nest egg could be sunk into the capital project. There may be no endowment at all, and a fund-raising effort will be needed to make the plan feasible. There may be a significant endowment, and the congregation could make a loan to itself intending to replenish the endowment funds later. One way or another, in each of these scenarios, you will be conducting a fund-raising campaign. Mother always said, "Eat your vegetables first, and then you may have dessert."

Building campaigns need cash, and they need it at a certain time (within two to four years). The contractors must be paid. The building material must be purchased. Debt service must be met. If you cannot motivate people to give to a new building, or a renovation or expansion of your existing one, it may be time to revisit your priorities

rather than create an endowment fund, or take a loan from or spend down an existing endowment. **Perhaps the best use of an endowment during a capital project is as evidence of your financial stability** when you approach commercial lenders or the UUA Building Program for assistance. Your members will also find security in knowing that theirs is a congregation that knows how to be responsible stewards of all of its resources.

**People support endowments because they want to do something lasting**; they expect their contribution to be invested wisely, to grow in value, and to produce a reliable revenue stream in perpetuity. It is their brush with eternity and the future. Gifts to endowments are generally meant to be permanent resources, spent only in emergencies. The most common form of contribution to an endowment is a charitable bequest, a significant gift from someone's accumulated life estate—often his or her largest single contribution. If you decide as a group that this project is an absolute necessity, and the only way you will get a new building completed is by using unrestricted monies from the endowment, then you most certainly may do so. Sometimes this kind of risk is appropriate. However, please find a public and permanent way to honor the memory of those who made the project possible through their gifts to your endowment.

One of the most common reasons people give to explain why they will not contribute to endowment is fear that their gifts will someday be “frittered away.” While a building project is no bit of “frippery,” using endowment funds for a capital project is only appropriate with permission of the majority of the membership and only when not using the endowment would mean a significant crisis in the long-term vitality of a congregation. Invading endowment principal or corpus for a capital project is not illegal, but it can be a measure of disrespect for donors whose intentions were for perpetuity. Is the project important enough to risk breaking faith with generous donors, current and future?

Over the long haul you will do better to demonstrate responsible financial stewardship by raising money directly for the project and successfully completing it. The trust and satisfaction built in that enterprise will result in greater generosity for all your needs, including the endowment.

Capital campaigns, not endowment funds, are designed to finance major capital projects. Universities, hospitals, and religious organizations can and do successfully raise substantial amounts for specific one-time projects. The advance work you put into planning and obtaining wide participation will pay great dividends when the time comes to get personal commitments to give. Individuals pledge to give cash, stock, and other readily marketable assets within three to five years. A combination of contributions like these and reasonable debt service can make a dream project a reality. People love to give to something they know and love, and one burst of generosity builds others.

The ideal time to launch a fund-raising campaign for an endowment fund is a year or two after a successful capital campaign. Outright gifts are always welcome, but the most common gifts are from charitable bequests made by will or family trusts. People contribute from their accumulated life estate to help a congregation remain strong and continue to grow in perpetuity; an endowment gift is properly treated as one that is made for the very long-term future vitality of a congregation and its mission and outreach in the community.

Following is a summary of the characteristics of two different kinds of funds that you may want to create in addition to the general operating fund.

#### **A. Classical Endowment Fund**

- Objective is to provide for long-term health and survival of the congregation.
- Generally funded by charitable bequests, proceeds from charitable trusts, gift annuities, the UUA Pooled Income Fund, and other special gifts.
- Invested conservatively in a balanced, diversified portfolio designed to meet goals: long-term growth of principal to keep up with or outpace inflation, and, if needed, to yield income for current purposes.
- Principal held virtually inviolate.
- Income expended according to guidelines agreed upon in the Bylaws. For example, to enhance or supplement programs, or for "big" purposes.

#### **B. Capital Reserve Fund (Development Fund or Quasi-Endowment Fund)**

- Can expend principal and fund earnings on approved projects.
- May be funded by special fund drive for major gifts.
- Contributes to building and site development.
- Matching funds in new gifts from congregation may be required for any major development project.
- Some funds are invested with short-term needs in mind.

(Please see pages 37-46 of the Appendix for options and examples of resolutions that establish both of these.)



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## Definitions

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**What is an Endowment fund?** The widely adopted Uniform Management of Institutional Funds Act defines an *endowment fund* as “an institutional fund, or any part of such a fund, not wholly expendable by the institution on a current basis under the terms of the applicable gift instrument.” An *institutional fund* is defined as “a fund held by an institution for its exclusive use, benefit, or purposes....” An endowment fund for a UU fellowship, congregation, society, or church is legally considered to be just such an “institutional fund.”

An endowment fund is a financial account with restrictions placed on distributions (i.e., how much of the fund may be spent, for what purposes, and under whose authorization). It is maintained and accounted for as separate and distinct from all other funds, such as the operating budget or a capital reserve fund. An endowment is a financial resource in perpetuity, extending and enhancing your fellowship or congregation’s capacity to fulfill its mission and purpose.

**What is a classic or true endowment?** The traditional endowment fund is a fund from which the principal or corpus is never spent. Income from investment earnings (interest, dividends, and sometimes capital appreciation) may be spent, subject to policies adopted by the institution. “Don’t spend the principal!” has long been the rallying cry for endowment funds, but what is principal and what is income?

**What is principal?** Principal is defined, at minimum, as the original value of any gifts made to the endowment fund. Using this definition, “Don’t spend principal!” could be taken to mean that an unrestricted gift of \$10,000 to the endowment may never be spent.

That is all well and good in times of low or no inflation, but even in such times, wouldn’t it be wise to see that \$10,000 grow? If the \$10,000 appreciated in value by 3-5% each year, it could preserve the “buying power” of the original gift. Is that growth considered principal or income?

**What is income?** Traditionally, income consists of all earnings, exclusive of capital appreciation. However, according to the Uniform Management of Institutional Funds Act, each institution is relatively free to define “income” and “principal” as you wish as long as you faithfully observe restrictions made by the donors, follow sound accounting practices, and comply with state law regarding endowments and fiduciaries. Instead of the term “principal,” the Institutional Funds Act uses the term “historic dollar value” to refer to the combination of the original gift value, additional gifts, and reinvestment of earnings. (See the Summary of the Uniform Management of Institutional Funds Act, and the Massachusetts Act, on pages 26-33.)

**What is a fiduciary?** A fiduciary is a trustee, someone who holds and takes care of something for the benefit of others. It is a position of responsibility founded on public trust and confidence. Fiduciary powers include making decisions about investments and routine distributions, and hiring appropriate professional services (CPA, broker, and the like). Fiduciary responsibilities include record-keeping, observing donor restrictions, administering the funds according to the enabling bylaws and other guidelines agreed to by the congregation, and reporting on fund activity in a timely and accurate fashion.

**What regulations govern endowments?** In the United States, state law governs the management and use of endowment funds. Most states, but not all of them, have adopted either selected portions or a slightly revised version of the “Uniform Management of Institutional Funds Act.” The state office of the Attorney General oversees compliance, ensuring that donors’ wishes are honored and that the fiduciary powers and responsibilities of the institution are exercised appropriately.

Because regulations vary from one state to another and they change from time to time, qualified legal counsel should review your endowment fund enabling documents to ensure they are up to date and in compliance.

Many states have posted their statutes on line. One excellent site is maintained by the Law School at Cornell University. Its February 1999 list included 46 states, but not all of them had provided documentation. Alaska, Arizona, Pennsylvania, and South Dakota were not on the list. The Cornell web site address is:  
**<http://www.law.cornell.edu/uniform/vol7/html#infnd>**.

If you don’t find your state regulations on the web, contact your state Attorney General for information.

A narrative summary of the Uniform Management of Institutional Funds Act, and a copy of the Massachusetts version, are provided in the Appendix of this booklet. (See pp. 26-33.)

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## Getting Started

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**When should an endowment fund be created?** Starting an endowment fund is probably last on a list of priorities for a new congregation. Even so, it is never too soon to adopt simple gift acceptance guidelines and resolutions enabling a congregational endowment fund.

Charitable bequests do not follow anyone's timetable; they arrive when they arrive. If your congregation has not already agreed to a plan focusing on an unexpected generous windfall, then you may find yourselves in a divisive situation when the sky opens and drops one at your doors. Better to come to an agreement before the windfall; you may still have a difference of opinion about how to use the gift, but you will have a decision-making process established that will help resolve any conflict.

Laying the foundation for gifts to an endowment fund is thoughtful preparation and sound financial practice. When the congregation as a whole agrees to simple guidelines stating how you wish to use your endowment fund and how you will administer it, you demonstrate your ability to act responsibly with financial resources and future planning. The purpose and governance of an endowment fund should fit seamlessly with your mission and bylaws, tailored to the your congregational practice and covenants with each other. Whenever you do it, creating and funding an endowment is an act of faithful stewardship for Unitarian Universalism and its future.

A congregation with limited resources may simply prepare for the unexpected boon by adding endowment enabling resolutions to its church bylaws. Whenever your congregation reviews and clarifies its mission and governance, you have a perfect opportunity to review the purposes and governance of your endowment fund--or to create an endowment fund if you don't already have one.

Framing an endowment with no gifts in hand or on the horizon is an act of faith. You demonstrate your confidence in the future of your congregation, that it will grow and mature, and that people will want to make contributions to ensure that it endures long after they themselves are gone.

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## Structure of the Fund

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### What forms may an endowment fund take?

**A trust, with its own trustees, governed by a trust document and related federal and state law.**

**A private foundation, with its own bylaws and governance, subject to federal and state law.**

**A separately administered endowment fund, segregated from general operating funds, governed by congregational bylaws and guidelines adopted from time to time.**

**A supporting organization, separate charitable non-profit corporation created with a mission to support the congregation. Subject to federal and state law and reporting requirements.**

The third option is usually the best for a fellowship or congregation. Properly written guidelines for a congregational endowment fund are strong safeguards against abuse and provide reasonable checks and balances in decision-making. Keeping the fund within the bylaws of the congregation keeps the stewardship where it should be: in the life of the congregation.

Some people express the conviction that an endowment fund should be kept far away from a congregation's board of directors and normal decision-making. They prefer a trust or foundation over an endowment set up as part of the society's bylaws. Some congregations have taken this route; some have met crisis as a result, some have not.

The fourth option, a supporting organization, may be an appropriate alternative when there is strong feeling against allowing the congregation direct access to endowment fund investments and spending. Like the foundation or trust options, a supporting organization has its own board, its own tax ID, bylaws, and is subject to specific reporting requirements as a separate non-profit organization. Its purpose, by definition, is to support the mission and well-being of the congregation or fellowship it is supporting – hence, there is some permanence to the link between the supporting organization and the congregation itself, but not every group can afford to do this.

*Issues of power and trust deserve attention and care, especially where money is involved.* As you clarify the purpose and administrative procedures you want for your endowment, keep in mind that you want to achieve a balance of power and build trust through participation and education. Checks and balances can be built into procedures around the endowment so that no one is given too much power or freedom with the funds, and everyone knows enough about the fund to make responsible decisions about its use and management.

We *caution against creating a trust or foundation* that is a legal entity separate from your society or congregation. Doing so can result in critical resources being withheld from the mission and purpose of your congregation. When an autonomous board of directors can make decisions about whether or not to release funds to a congregation, there is no guarantee that the congregation will receive any financial support. A foundation board may change its funding policies and directions independent of the needs of the congregation.

In addition, creating and maintaining a trust or private foundation can be much more complicated, time-consuming and expensive than an endowment fund established within your bylaws or constitution. Legal documents establishing the trust or foundation must be drawn up and reviewed periodically to remain in compliance with federal and state requirements. Also required are professional audits, specific accounting procedures, a separate federal ID number, annual tax filing, and an outside manager to handle investments -- all of this is cost-effective only for endowments of \$1 million or more.

While trusts and foundations do provide the maximum legal protection against congregational misuse of funds, the desire for this kind of security may be signaling an unacknowledged or ill-addressed point of conflict and mistrust within the congregation. Better to find a way to resolve the issue than to create a situation that will come to haunt you in the long run. In most cases, a church endowment is amply safeguarded from misuse or abuse by an enabling document that creates a reporting and decision-making system with checks and balances.

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## Establishing the Fund

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### **How are endowment funds established?**

1. By an amendment to the congregational bylaws or constitution.
2. By a legal trust indenture.
3. By a resolution passed by the governing Board, which may or may not be confirmed by a vote of the congregation.

**What process has worked for other congregations?** If your congregation has fewer than 100 members, your process will differ from that of a congregation of 500 or more. For one thing, you have fewer people. For another, getting the membership involved may be much simpler than mobilizing 25 score! We recommend you draw on your experience and use models of decision-making that have worked well in your congregation.

First, you need to form a small committee to shepherd the process of developing Endowment Enabling Resolutions. Then we recommend that you take the time to have a “congregational discussion” of the purpose and governance of the fund. Then the congregation or governing board, or both, votes to adopt the resolutions into your corporate bylaws.

This Endowment Start-up Committee (no doubt you can think of a better name for it!) can be responsible for drafting and revising the documents you need, including gift acceptance guidelines and investment and distribution policies for the fund.

Options and samples for enabling resolutions are included in the Appendix (pages 37-46). They are there for you to refer to and use as you create a set of resolutions that will work for your congregation. In order to be good stewards of your religious legacy, your congregation needs to agree to administrative, fund-raising, investment and spending purposes, policies and procedures for the endowment -- *preferably before any gifts arrive.*

This Start-up Committee should be charged with involving as many people as possible in shaping the priorities and documents for the endowment fund, particularly people who might be strong supporters of the fund. The planning stage is ideal to get “buy-in” and to market the endowment. Invite the church school to name the fund. Include adolescents and young adults on committees related to the endowment. Organize small group discussions about how your endowment fund will further the mission and purpose of the congregation.

Try to make your policies and guidelines simple, clear, and easy to follow. Potential donors may withhold significant gifts if your work suggests that their money will be “frittered away.” Many people want to know exactly what will happen to their money when they give it to the fund. Few want to give their life estate to a boat that

doesn't hold water or to a crew that navigates aimlessly. But most will be generous, and give with few restrictions, if they know the endowment fund is well conceived and responsibly managed.

### **What needs to be included in the Enabling Resolutions?**

- Why you are establishing an endowment fund.
- Name and charge to committees with responsibilities related to the endowment. (Endowment, Investment, Fund-raising)
- Number of members on each committee (typically 4 to 7 people)
- General powers of the committee to make investment and management decisions.
- Lines of reporting and ultimate responsibility.
- Method of selection (by the Board or by the Congregation—by vote or appointment).
- Term of office (typically two or three years, staggered rotation).
- Possibility of re-selection (typically, maximum of two consecutive terms, a break, and then an option for one more term).
- *Ex officio* members—voting or non-voting?
- Limit on number who may also be members of the Board.
- Minimum number of meetings per year.
- Quorum for conducting committee business.
- Any limitations on use of endowment (expressed as percent of total assets).
- When a decision is to be approved by a vote of the congregation.
- What constitutes a quorum for a congregational vote? Is it the same in every instance or different when considering changes to the bylaws or to spend down the endowment funds?
- What percentage of the membership (or quorum) of the congregation must approve of decisions brought before them.
- How often will a report be made to the Board? To the full congregation?
- How often an audit of the fund accounts will be conducted.
- Reference to separate document of guidelines for gift acceptance and financial management.
- How the fund would be dissolved if needed.

**What else needs to be considered as you draft your documents?** Your enabling resolutions may include more than the items listed just above. Here are a few questions and ideas that other congregations have considered, and included either in the bylaws or in a separate set of guidelines:

1. In order to ensure the greatest possible congregational participation, do you need provisions for “absentee ballots” or for more than one meeting for very important decisions?

2. Do you want to limit use of endowment distributions? For instance, no more than 10% of the annual operating budget may be covered by endowment funds. Is there a minimum amount you want to ensure is available as a permanent fund?
3. Do you want your endowment to serve more than one purpose? Perhaps a portion is designated for your building, another portion is designated for social outreach or special programming, and a third as a true, classic endowment.
4. Do you want the fund to grow to a specified amount before any distributions are made?
5. How often will “routine” distributions be made from the fund? Typically once a year.
6. How will the distribution amount be calculated? Typically, a fixed percentage of the average fair market value of the fund based on the previous thirteen quarters.



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## Committees and Responsibilities

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By now it is clear that there are a number of important decisions you need to make as a congregation related to an endowment fund. One area that deserves comment here is how the endowment fund fits into your organizational structure. Who is responsible for what? Which committee reports to which or whom? What is the role of lay and professional leadership? Do you want members of the governing board on the endowment committees? Do you want them to have voting powers?

In addition to the governing board, several existing committees should be connected with the work of the Endowment Committee. The Treasurer and Finance Committee is one obvious connection. Fundraising committees are another. You may think of others, too. **If you establish only one committee, it should be charged with responsibilities that include** encouraging, accepting and acknowledging gifts to the endowment, ensuring that restricted gifts are honored and properly recorded for posterity, arranging for professional accounting of the funds (new gifts, investment income and growth, and expenses), reporting on fund activities to the Board and the Congregation, making prudent investment decisions, administering the distribution of funds, and ensuring appropriate checks and balances in power over the funds are maintained.

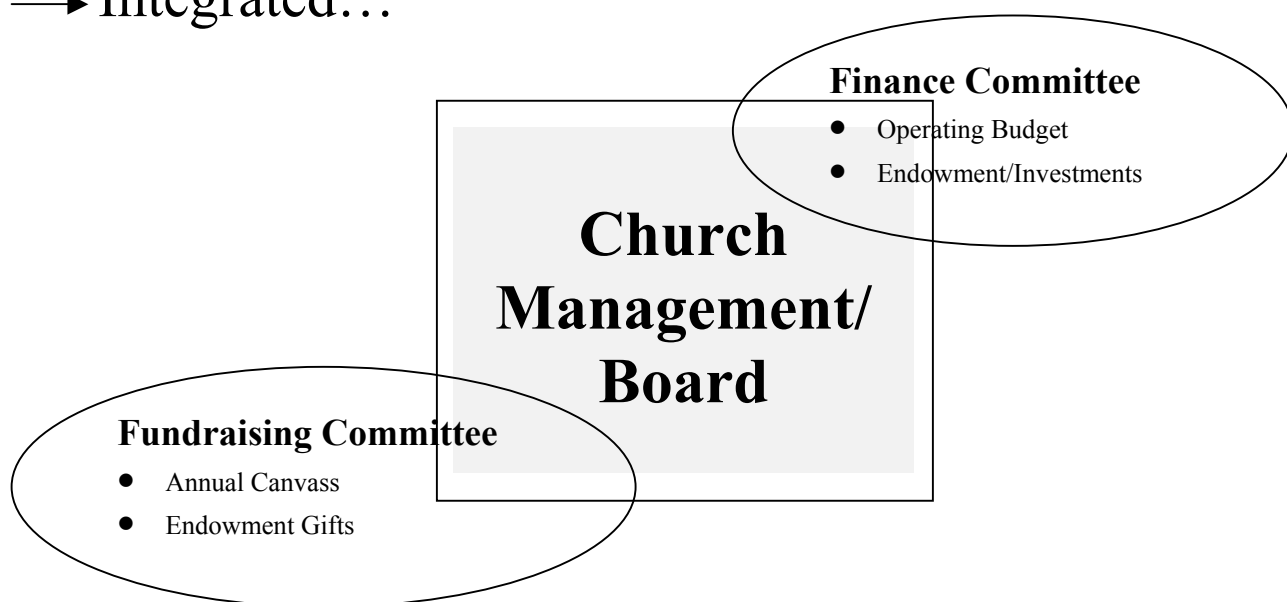
That's a lot for one committee to do, but it can be done. **Another model is to set up an Endowment Committee with sub-committees given specific portions of the tasks** enumerated above. For instance, one sub-committee could be charged with investments (finding appropriate financial services, mutual funds, what have you; reviewing performance, and reporting it to the whole committee). Another sub-committee could be charged with accounting and preparing reports for the Board and the Congregation. Another could be charged with reviewing and approving distributions and expenses. Another could be charged with obtaining contributions to the fund.

A third model might be **to charge existing committees to take on some responsibilities for the fund**. For instance, the Finance Committee might oversee the accounting, investment and spending. The governing Board might be charged with ensuring that donor restrictions are honored and that the bylaws and guidelines are being followed. A fundraising committee might take on the project of obtaining contributions and acknowledging them. The endowment committee might review proposals for use of the fund and make recommendations to the Board for its approval.

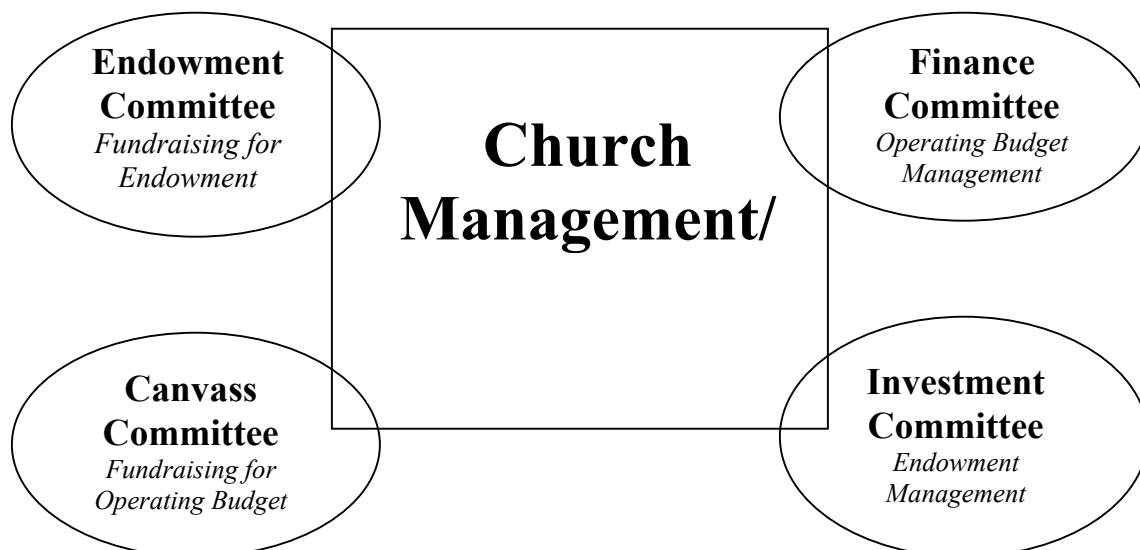
The diagram on the following page illustrates two possibilities for structuring the committees.

# COMMITTEE STRUCTURES FOR ENDOWMENT MANAGEMENT

→ Integrated...



→ ...or Separated



The best piece of advice regarding lines of responsibility and accountability is to **establish clear and simple separation of powers**. Consult your existing bylaws and your own experience about how your congregation best makes decisions. Be practical. Don't over-complicate things by having too many cooks in the kitchen; but do institute controls so that more than one set of eyes and hands are accepting contributions, managing investments, and accounting for and spending endowment funds. Perhaps you want two signatures on checks over \$100 or some other amount.

The full congregation should be given a written report and formal presentation of the endowment fund activity on an annual basis, if not more frequently. The Board should have at least quarterly information to review. An annual audit conducted by a disinterested party is strongly advised; find someone who is not a member of your congregation to do this. All the books and records of the fund should be readily available for anyone to inspect or review.

Think about what safeguards could be created to ensure that sound decisions are made during times of crisis or unusual enthusiasm. Perhaps you take two votes, a month apart, before actions take effect? If you have seasonal members, how are they going to be included in decisions during the "off-season"?

**What is the relationship between the Governing Board and the Endowment Committee?** The answer to this question will be particular to each congregation. On paper it may be congenial, but in practice, it may be adversarial. Conflicts do arise from time to time, usually when the Board wants the endowment committee to release funds for a pressing need and the committee objects to, even refuses, the request.

Ultimately, the use of the fund is under the control of the congregation, not the Board and not the Endowment Committee. The Enabling Resolutions should make it clear that the funds are to be used as designated by donors and as specified in your bylaws. Exceptions are subject to a congregational vote, with a significant majority required to approve any exception. As long as there are clear lines of communication and regular, open reporting on the performance of the fund, gift activity, and your agreed-upon purposes for the fund, conflicts should be kept to a minimum.

**Do committee members need to be bonded or be covered by special indemnification insurance?** No. There are three reasons why this is so. First, both the Management of Institutional Funds Act and the Prudent Investor Rule clearly state that a trustee shall not be liable to a beneficiary so long as the trustee acts in reasonable reliance on the provisions of the trust...and the trustee fulfills her or his responsibilities related to the investment and management of assets as a prudent investor would.

Second, the endowment fund document will outline the responsibilities of the committee members, and hold them harmless for conducting their business with reasonable prudence and accountability. Third, your congregational constitution or bylaws should already include indemnification for Officers and members of Boards and Committees. *If it does not, please contact the UUA Office of Church and Staff Finance.*

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## Managing the Fund

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**What is the best investment strategy for an endowment fund?** The answer lies in the current value of the fund and your long-term goals. You are looking to find a balance between your need for growth and your need for income. *Growth* equals increase or “appreciation” in value of your fund. Historically, growth will be greatest when you invest in corporate stock. *Income* is a combination of dividend payments from corporate earnings and interest on bonds, money market funds, certificates of deposit, an interest-bearing savings account, and the like. *Total return* equals growth plus income. Your minimum investment goal for an endowment fund ought to be to match the rate of inflation.

Prudent endowment investment strategy usually entails low to moderate risk, often following what money managers call a “balanced” portfolio. Forty to sixty percent of your investments should be in bonds or fixed equities; and forty to sixty percent in stocks. The more you put into stocks, the higher your risk. Don’t put your eggs all in one basket. **Diversify!**

Diversification in your investments makes it possible for you to achieve maximum return for the least risk. A simple way to achieve diversification is to invest in mutual funds. A fund worth \$10,000 to \$500,000 should be manageable by reasonably knowledgeable people. If your congregation has no one who feels competent to review options for investing, then you may want to find someone outside the congregation who can advise you from time to time. A local community foundation, charitable organization, if not a financial institution near you may have *pro bono* advisors to point you in responsible directions. Another church or synagogue may also.

Competition for investment dollars is high right now, and you’ll find many options to consider. Look first at industry leaders with solid reputations, and use their fees and services as a benchmark to compare with others. Fidelity and Vanguard are certainly worth considering.

Another option to explore is to invest your endowment with those of other congregations managed within the General Investment Funds of the Unitarian Universalist Association. Annual administrative fees on these accounts average 1% on the fair market value of the funds. **Contact the Nancy Gladyszak, UUA Endowment Funds Manager** for general information and to obtain a copy of the agreement you would complete if your congregation chooses to have its endowment fund invested by the UUA. There is a great deal of information on the UUA web site. Go to [WWW.UUA.ORG/FINANCE](http://WWW.UUA.ORG/FINANCE).

If your fund is greater than \$500,000, congratulations! You may want to hire an investment agent and establish your own brokerage account. The endowment

committee would instruct your agent as to your investment goals, preferred asset allocation, and socially responsible investment preferences; approve the agent's general suggestions for specific stocks and positions in the various market sectors (finance, health, technology, utilities, transportation, pharmaceuticals, and others). The endowment committee would be responsible for reviewing investment performance and ensuring that the congregation and its leadership receive timely and accurate reports.

**Who should make investment decisions for the endowment?** The endowment committee or a sub committee charged with investment oversight (call it the "Investment Committee," if you want) should have the flexibility and freedom to make prudent choices in a timely fashion. Avoid the temptation to turn this over to one exceptional member of your congregation. It is in everyone's best interest that congregational investments be managed by more than one person.

Empower the committee to seek professional advice as needed, and require that the committee report quarterly to the Finance Committee or your church governing board, and at least annually to the whole congregation. (See the section on fiduciary powers and responsibilities regarding investments in the Uniform Management of Institutional Funds Act for more details, Appendix, p. 29-33.)

Let the committee do its work, following general guidelines and investment targets.

**What should we include in guidelines separate from the resolutions added to the bylaws?** Separate guidelines make good sense for things you may want to adjust from time to time; whereas the resolutions adopted into your bylaws should reflect "timeless" features, policies that the congregation wants to keep in place for a long time.

The separate guidelines could include some or all of the following:

- 1) Socially responsible investment screens you wish to maintain.
- 2) Target ranges for rates of growth, income, and total return.  
You may want to specify different ranges for different funds.
- 3) Description of the degree of risk you are willing to tolerate.
- 4) Description of the strategy for asset allocation.  
Are you investing for growth, income or a balance of the two?
- 5) Under what circumstances the strategy might change (for instance, when the fund is worth \$250,000 or \$500,000).
- 6) What model you wish to follow in distributing funds.

While you certainly don't want to set one person or a committee to go off on their own and do whatever they please with congregational funds, you do not want the entire congregation consulted or voting on every buy or sell order, or minor

adjustments in asset allocation. The long-term, general pattern most likely will be to maintain a balanced portfolio, not to play the market furiously and take great risks.

**Does the “Prudent Man [*sic*] Rule” apply to the financial management of an endowment fund?** It used to, but it is being replaced by a new Prudent Investor Rule as each state reviews its existing regulations. The general concept of prudence remains. That is, the people responsible for the investment management of trust or endowment fund assets are expected to use:

...judgment and care under the circumstances prevailing that any persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital.

--Mass. Chapter 203C, Section 11.

One of the primary changes being adopted, in addition to the gender-free title, is a new description of what constitutes prudent investing. Under the old rule, the investment manager was liable for every single stock pick, and a case could be made that investing for total return was imprudent if one investment went sour – even if the overall performance was outstanding. **The new rule states** “decisions respecting individual assets shall be considered in the context of the trust portfolio as a part of an overall investment strategy reasonably suited to the trust [or endowment fund].”

(The Massachusetts version of the Prudent Investor Act may be found in the Appendix, pages 34-36).

**How much of the endowment earnings should be spent each year?** We recommend that the managers of an endowment fund use a “levelized” rate of return in order to calculate the amount of money that can be appropriated annually to further the purposes of the Fund while protecting the principal from inflation.

Sometimes referred to as the Harvard Method, this process involves (1) determining and recording the net asset value (NAV) of the Fund on a quarterly basis, (2) finding the average NAV for the last 13 quarters, and (3) multiplying the average NAV by an agreed upon rate (usually between 4% and 6%) to determine the amount available to spend for the next budget year.

Thus, in good years when the total return on Fund investments (interest, dividends, and appreciation) is high, more of the increase is, in effect, “saved” in the Fund so that in lean years, more money will be available than would be if the managers spent all or a percentage of the Fund’s interest and dividend earnings each year.

**How can we account for new gifts when averaging the quarterly Fund value?** The recommended procedure is to “unitize the fund” and determine the value

of one unit on a quarterly basis. Begin by setting an arbitrary value to one unit, for example, one unit = \$100. Next, divide the NAV at the end first of the previous 13 quarters by the unit value you decided to use (the arbitrary value). Then proceed forward quarter-by-quarter, adding units for each gift received during that quarter (using the unit value from the previous quarter as the base).

For example, if the initial value of one unit equals \$100, then a gift of \$5,000 would be assigned 50 units. A gift of \$5,500 would be 55 units. And so on. The unit assignment never changes. The dollar value of one unit, however, will change with the growth or decline in the fair market value of the whole Fund. Hence, in a good year the \$5,000 gift may grow in value 8% or more and the value of one unit will increase by the same percentage.

When you first unitize your Fund, at the end of a quarter, assign a unit value to everything. You may not have good records on every gift that has been made to the endowment. That's okay. What you want to have is a unit value for the whole fund at the end of each quarter moving forward from this point. You may also want to be able to track the activity in special funds that are part of your whole endowment. Perhaps someone made a very generous gift years ago to fund a lecture series in perpetuity. If you need to account and report on the financial status of this special fund, then assign it a unit value.

Once you have set up the initial unit assignments based on an arbitrary value for one unit, you are ready to begin the practice of using the Net Asset Value (NAV) of your Fund to determine the new value of one unit at the end of each quarter. Use the unit value at the end of one quarter to assign units to new contributions and additions to the endowment during the following three months. Keep track of the number of units added each quarter. When new gifts are made, the total number of units in the fund increases, and you have a mechanism to avoid skewing the average net asset value (NAV) from one quarter to the next.

To determine the new value of one unit at the end of a quarter, divide the NAV of the Fund for that quarter by the total number of units you know are in the Fund. Here's the formula:

$$\frac{\text{Net Asset Value of Fund Assets}}{\text{Total Number of Units in the Fund}} = \text{Unit Value}$$

Here's what to do to determine the NAV for the purpose of distributing monies from this unitized fund: After calculating the unit value for each of the preceding 13 quarters, average the unit values. Multiply the average unit value by the current total number of units to determine the NAV for the purpose of distributing funds.

The UUA uses this "Harvard Model" for its own institutional funds. It is generally viewed as sound and responsible financial management practice because it:

- 1) Ensures the fund continues to grow over time,
- 2) Provides a hedge against inflation,
- 3) Yields a reasonable amount of money for express purposes,
- 4) Allows a “total return” investment strategy, and
- 5) Makes it possible for distributions from the fund to be made from capital gains, dividends and interest.

Some congregations have set a dollar goal for the endowment to reach before any distributions are made. Some designate that amount as a minimum that must be maintained, making it akin to principal that may be expended only in rare and extreme circumstances and subject to a majority vote of the membership.

**What kind of investment return can we expect?** Total return will vary with the asset allocation of your portfolio and the institution that is doing your investing. Historically, over a thirty-year period, equities have returned 10-11%. A balanced portfolio with 60% of the investments allocated for income has returned 5-6%. A portfolio that invests half of its assets in Standard & Poor’s 500 Index and the other half in a Bond Index fund returned 7-9%. (See the Appendix, p. 51 for a chart of the Historical Average Annual Real Compound Returns for different stock/bond ratios.) In the economic environment at the beginning of the 21<sup>st</sup> Century, these returns were often hard to find in one year to the next. Set your sights on the long-term when setting goals for investment performance.

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## Gift Acceptance Guidelines

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**Do we need to have Gift Acceptance Guidelines?** Yes, it is a good idea to have something in writing that outlines what kinds of gifts you routinely accept (cash, stock, personal tangible property), and what kinds need to be reviewed before your congregation accepts them.

Try to write a simple policy that states what the congregation will do with an unrestricted gift. Will it go to the endowment fund? Will it be distributed among several different funds? Will it go to the general operating fund?

Outline a procedure for reviewing gifts of real estate or other assets that may be difficult to sell or may carry liabilities you wish to avoid. You will also want to review restrictions donors place on their gifts. It is perfectly fine, indeed advisable, to refuse to accept a charitable bequest or a gift someone wants to give you during their lifetime if accepting that gift means you will be distracted from your primary mission and purpose as a congregation, or if it will expose you to expense or other liabilities that



pose a hardship on your resources or threaten your ability to maintain your tax exempt status as a religious organization.

Some congregations have a procedure whereby an *ad hoc* committee convenes whenever an unusual gift arrives or is being proposed. That committee considers the pros and cons and makes a recommendation to the governing board and/or other appropriate bodies.

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## UUA Resources

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Here are some of the ways that the Unitarian Universalist Association can help you build a successful endowment.

1. Contact your **District Office** first. They are most likely to know which UU fellowships and congregations near you have an endowment fund in place. If you don't know how to reach your district office, visit the UUA web site at [www.uua.org/DIST](http://www.uua.org/DIST).
2. Visit the UUA web site: [www.uua.org](http://www.uua.org). In general this is where to go for information and resources available from the Association staff and volunteers.
3. Contact the **UUA Congregational Fundraising Services** and ask them to send information on what other congregations have done to market and strengthen an endowment fund, sample brochures, and a booklet on how to promote bequests. You can reach the Director, **Wayne Clark** by e-mail: [wclark@uua.org](mailto:wclark@uua.org). This endowment guide and a planned giving guide are posted on the web in pdf format. Visit [www.uua.org/cde/fundraising](http://www.uua.org/cde/fundraising).
4. Contact **Nancy Gladyszak, Endowment Funds Manager**, for an application to invest with the UUA. [ngladyszak@uua.org](mailto:ngladyszak@uua.org).
5. Visit the **Financial Services** section of the web site at [www.uua.org/finance](http://www.uua.org/finance). There you will find information on the investment policies of the Association, reports of the quarterly performance of the UUA's institutional funds, and links to information on socially responsible investment (sri).
6. Contact the UUA Office of **Charitable Gift and Estate Planning** to learn how your congregation can benefit from life income gifts, and to order brochures describing specific planned giving opportunities. You can reach the Director, Marcy Bailey-Adams, by email at: [mbailey@uua.org](mailto:mbailey@uua.org).

Mail:

25 Beacon Street  
Boston, MA 02108-2800

Telephone:

617-948-6511

Email:

[giftplans@uua.org](mailto:giftplans@uua.org)

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## Appendix

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## Summary

### *Uniform Management of Institutional Funds Act*

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#### **What are the basic rules described in the Uniform Management of Institutional Funds Act?**

The very first section defines terms. For example, using the Massachusetts version, an *endowment fund* is defined as “an institutional fund, or any part of such a fund, not wholly expendable by the institution on a current basis under the terms of the applicable gift instrument.” An *institutional fund* is defined as “a fund held by an institution for its exclusive use, benefit, or purposes...” followed by examples of what does not constitute an endowment fund.

“A fund held for an institution by a trustee that is not an institution” is not an endowment fund. Nor is “a fund in which a beneficiary that is not an institution has an interest, other than possible rights that could arise upon violation or failure of the purposes of the fund.”

The *governing board* is defined as the body responsible for the management of the fund.

*Historic dollar value* is described as “the aggregate fair value in dollars of (i) an endowment fund at the time it became an endowment fund, (ii) each subsequent donation to the fund at the time it is made, and (iii) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. The determination of historic dollar value made in good faith by the institution is conclusive.”

*Gift instrument* is also defined: “A will, deed, grant, conveyance, agreement, memorandum, writing, or other governing document, including the terms of any institutional solicitations from which an institutional fund resulted, under which property is transferred or held by an institution as an institutional fund.”

***Following is an outline and brief summary of the other sections of the Uniform Act. It is intended as a general introduction and in no way replaces qualified counsel and a review of the statutes in effect in your state:***

1. Expenditure of net appreciation standards—Defines in general and, in some states, specific terms what is considered to be prudent for the governing board in determining the dollar amount available for spending—a portion of the net appreciation in the fair value of the assets over the historic dollar value of the fund. Massachusetts limits the percent of fair market value that may be appropriated in one business year, based on average of quarterly valuations over a period of at least three years.

2. Restrictions in gift instruments regarding expenditure of net appreciation—If the gift instrument specifies that net appreciation shall not be expended, then the governing

board is required to honor that intention. And it is important to note that the uniform act states that a gift instrument must expressly state this intention; a restriction against spending net appreciation may not be implied from a statement that the gift is a gift of an endowment, or from direction in the gift instrument to use only “income,” “interest,” “dividends,” or “to preserve the principal intact,” or words like these.

3. Rules for accumulation of annual net income and reserves—This section grants the governing board the power to accumulate “so much of the annual net income of an institutional fund as is prudent” according to the proscribed uses and purposes of the fund and their fiduciary responsibility. This net income may be held in an income reserve for later use.

4. Restrictions in gift instruments against accumulation of income or addition to principal—If the gift instrument specifies that income shall not be accumulated or shall not be added to the principal of the fund, then the governing board must comply with the donor’s wishes. As in point 2 (above), this restriction may not be implied, but must be stated clearly as the donor’s expressed intention.

5. Fiduciary powers and responsibilities regarding investments—The governing board is subject to specific limitations set forth in the applicable gift instrument or in applicable law other than law relating to investments by a fiduciary. The board is generally free to invest and reinvest an institutional fund, as it deems advisable. The fund may be included in any pooled or common fund maintained by the institution and in other such funds available commercially.

6. Provisions for delegating authority of the governing board to others—Except as provided by the gift instrument or by applicable law relating to governmental institutions or funds, the governing board may delegate to others the authority to act in place of the board in the investment and reinvestment of the funds. It also may contract with independent advisors, counsel, managers, banks, or trust companies so to act; and it may authorize payment of compensation for professional investment or management services.

7. Administration of powers of board and the liability of its members—This section describes the fundamental fiduciary powers and responsibilities of the governing board of an endowment fund. The Massachusetts version reads: “In the administration of the power to appropriate appreciation, to accumulate income, to make and retain investments, and to delegate investment management of institutional funds, members of a governing board shall consider long and short term needs of the institution in carrying out its educational, religious, charitable or other eleemosynary purposes, the problems peculiar to the institution, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.”

And “no member of the governing board shall be liable for any action taken or omitted with respect to such appropriation or accumulation or with respect to the investment of institutional funds, including endowment funds, under the authority granted in this

chapter, if such member shall have discharged the duties of his [sic] position in good faith and with the degree of diligence, care and skill which prudent men [sic] would ordinarily exercise under similar circumstances in a like position.”

8. Release of restrictions imposed by gift instruments and the limitations on doing so—  
With the written consent of the donor, the governing board may release a restriction imposed by the applicable gift instrument on the use or investment of an institutional fund. If written consent of the donor cannot be obtained, the governing board may apply in the name of the institution to a court of competent jurisdiction for release of a restriction. The Attorney General must be notified of the application and shall be given an opportunity to be heard. However, no release will change an endowment fund to a fund that is not an endowment fund.

**GENERAL LAWS OF MASSACHUSETTS**

**CHAPTER 180A. MANAGEMENT OF INSTITUTIONAL FUNDS.**

**Section 1.** Definitions.

**Section 2.** Appropriations for expenditures from endowment funds authorized; presumption of imprudence.

**Section 3.** Restrictions in gift instruments upon expenditure of net appreciation.

**Section 4.** Accumulation of annual net income; reserve.

**Section 5.** Restrictions in gift instruments against accumulation of income or addition to principal.

**Section 6.** Investments.

**Section 7.** Delegation of authority of board.

**Section 8.** Administration of powers of board; liability of members.

**Section 9.** Release of restrictions imposed by gift instruments; limitations.

**Section 10.** Application and construction.

**Section 11.** Citation.

This copy of Chapter 180A of the Massachusetts General Laws  
was obtained by the UUA Office of Planned Giving  
on February 27, 1999, on the World Wide Web.  
This version and that of other states may be obtained at the following site:  
<http://www.law.cornell.edu/uniform/vol7/html>.

***Section 1. Definitions.***

The following words as used in this chapter shall have the following meanings, unless a different meaning is clearly apparent from the language or context:

- (1) "Institution", an incorporated or unincorporated organization organized and operated exclusively for educational, religious, charitable, or other eleemosynary purposes, or a governmental organization to the extent that it holds funds exclusively for any of these purposes;
- (2) "Institutional fund", a fund held by an institution for its exclusive use, benefit, or purposes, but does not include (i) a fund held for an institution by a trustee that is not an institution or (ii) a fund in which a beneficiary that is not an institution has an interest, other than possible rights that could arise upon violation or failure of the purposes of the fund;
- (3) "Endowment fund", an institutional fund, or any part thereof, not wholly expendable by the institution on a current basis under the terms of the applicable gift instrument;
- (4) "Governing board", the body responsible for the management of an institution or of an institutional fund;
- (5) "Historic dollar value", the aggregate fair value in dollars of (i) an endowment fund at the time it became an endowment fund, (ii) each subsequent donation to the fund at the time it is made, and (iii) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. The determination of historic dollar value made in good faith by the institution is conclusive.
- (6) "Gift instrument", a will, deed, grant, conveyance, agreement, memorandum, writing, or other governing document, including the terms of any institutional solicitations from which an institutional fund resulted, under which property is transferred to or held by an institution as an institutional fund.

***Section 2. Appropriations for expenditures from endowment funds authorized; presumption of imprudence.***

The governing board may appropriate for expenditure for the uses and purposes for which an endowment fund is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of the endowment fund over the historic dollar value of the fund as is prudent under the standard established by section eight; provided, however, the appropriation of net appreciation for expenditure in any year in an amount greater than seven per cent of the fair market value of the institution's endowment funds, calculated on the basis of market values determined at least quarterly and averaged over a period of three or more years, shall create a rebuttable presumption of imprudence on the part of the governing board. This section does not



limit the authority of the governing board to expend funds as permitted under other law, the terms of the applicable gift instrument, or the charter of the institution.

***Section 3. Restrictions in gift instruments upon expenditure of net appreciation.***

Section two does not apply if the applicable gift instrument indicates the donor's intention that net appreciation shall not be expended. A restriction upon the expenditure of net appreciation may not be implied from a designation of a gift as an endowment, or from a direction or authorization in the applicable gift instrument to use only "income", "interest", "dividends", or "rents, issues or profits", or "to preserve the principal intact", or a direction which contains other words of similar import. This rule of construction applies to gift instruments executed or in effect before or after the effective date of this section.

***Section 4. Accumulation of annual net income; reserve.***

The governing board may accumulate so much of the annual net income of an institutional fund as is prudent under the standard established by section eight, and may hold any or all of such accumulated income in an income reserve for subsequent expenditure for the uses and purposes for which such institutional fund is established or may add any or all of such accumulated income to the principal of such institutional fund, as is prudent under said standard. This section does not limit the authority of the governing board to accumulate income or to add the same to principal of an institutional fund as permitted under other law, the terms of the applicable gift instrument, or the charter of the institution.

***Section 5. Restrictions in gift instruments against accumulation of income or addition to principal.***

Section four does not apply if and to the extent that the applicable gift instrument indicates the donor's intention that income of an institutional fund shall not be accumulated or shall not be added to the principal of the fund. A restriction against accumulation or addition to principal may not be implied from a designation of a gift as an endowment fund, or from a direction or authorization in the applicable gift instrument to apply to the uses and purposes of the fund the "income", "interest", "dividends", "currently expendable income", or "rent, issues or profits", or a direction which contains other words of similar import. This rule of construction applies to gift instruments executed or in effect before or after the effective date of this section.

***Section 6. Investments.***

In addition to an investment otherwise authorized by law or by the applicable gift instrument, and without restriction to investments a fiduciary may make, the governing

board, subject to any specific limitations set forth in the applicable gift instrument or in the applicable law other than law relating to investments by a fiduciary, may:

- (1) invest and reinvest an institutional fund in any real or personal property deemed advisable by the governing board, whether or not it produces a current return, including mortgages, stocks, bonds, debentures, and other securities of profit or non-profit corporations, shares in or obligations of associations, partnerships, or individuals, and obligations of any government or subdivision or instrumentality thereof;
- (2) retain property contributed by a donor to an institutional fund for as long as the governing board deems advisable;
- (3) include all or any part of an institutional fund in any pooled or common fund maintained by the institution; and
- (4) invest all or any part of an institutional fund in any other pooled or common fund available for investment, including shares or interests in regulated investment companies, mutual funds, common trust funds, investment partnerships, real estate investment trusts, or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board.

### ***Section 7. Delegation of authority of board.***

Except as otherwise provided by the applicable gift instrument or by applicable law relating to governmental institutions or funds, the governing board may (1) delegate to its committees, officers or employees of the institution or the fund, or agents, including investment counsel, the authority to act in place of the board in investment and reinvestment of institutional funds, (2) contract with independent investment advisors, investment counsel or managers, banks, or trust companies, so to act, and (3) authorize the payment of compensation for investment advisory or management services.

### ***Section 8. Administration of powers of board; liability of members.***

In the administration of the powers to appropriate appreciation, to accumulate income, to make and retain investments, and to delegate investment management of institutional funds, members of a governing board shall consider long and short term needs of the institution in carrying out its educational, religious, charitable or other eleemosynary purposes, the problems peculiar to the institution, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.

No member of the governing board shall be liable for any action taken or omitted with respect to such appropriation or accumulation or with respect to the investment of institutional funds, including endowment funds, under the authority granted in this

chapter, if such member shall have discharged the duties of his position in good faith and with that degree of diligence, care and skill which prudent men would ordinarily exercise under similar circumstances in a like position.

***Section 9. Release of restrictions imposed by gift instruments; limitations.***

With the written consent of the donor, the governing board may release, in whole or in part, a restriction imposed by the applicable gift instrument on the use or investment of an institutional fund.

If written consent of the donor cannot be obtained by reason of his death, disability, unavailability, or impossibility of identification, the governing board may apply in the name of the institution to a court of competent jurisdiction for release of a restriction imposed by the applicable gift instrument on the use or investment of an institutional fund. The Attorney General shall be notified of the application and shall be given an opportunity to be heard. If the court finds that the restriction is obsolete, inappropriate, or impracticable, it may by order release the restriction in whole or in part. A release under this subsection may not change an endowment fund to a fund that is not an endowment fund.

A release under this section may not allow a fund to be used for purposes other than the educational, religious, charitable, or other eleemosynary purposes of the institution affected.

This section does not limit the application of the doctrine of cy pres.

***Section 10. Application and construction.***

This chapter shall be so applied and construed as to effectuate its general purpose to make uniform the law with respect to the subject of this chapter among those states which enact it.

***Section 11. Citation.***

This chapter may be cited as the "Uniform Management of Institutional Funds Law".

## **Chapter 398 of the Acts of 1998**

### **AN ACT ESTABLISHING THE MASSACHUSETTS PRUDENT INVESTOR ACT.**

Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:

**SECTION 1.** The General Laws are hereby amended by inserting after chapter 203B the following chapter:-

### **CHAPTER 203C. PRUDENT INVESTMENT.**

Section 1. This chapter shall be known as and may be cited as the Massachusetts Prudent Investor Act.

Section 2. (a) Except as provided in subsection (b), a trustee who invests and manages trust assets shall owe a duty to the beneficiaries of a trust to comply with the prudent investor rule set forth in this chapter.

(b) The prudent investor rule may be expanded, restricted, eliminated or otherwise altered by the provisions of a trust. A trustee shall not be liable to a beneficiary to the extent that the trustee acted in reasonable reliance on the provisions of the trust.

Section 3. (a) A trustee shall invest and manage trust assets as a prudent investor would, considering the purposes, terms, and other circumstances of the trust, including those set forth in subsection (c). In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.

(b) A trustee's investment and management decisions respecting individual assets shall be considered in the context of the trust portfolio as a part of an overall investment strategy reasonably suited to the trust.

(c) Among circumstances that a trustee shall consider in investing and managing trust assets are such of the following as are relevant to the trust or its beneficiaries:

- (1) general economic conditions;
- (2) the possible effect of inflation or deflation;
- (3) the expected tax consequences of investment decisions or strategies;
- (4) the role that each investment or course of action plays within the overall trust portfolio;

- (5) the expected total return from income and the appreciation of capital;
  - (6) other resources of the beneficiaries;
  - (7) needs for liquidity, regularity of income, and preservation or appreciation of capital;  
and
  - (8) an asset's special relationship or special value, if any, to the purposes of the trust or to one of the beneficiaries.
- (d) A trustee shall make a reasonable effort to verify facts relevant to the investment and management of trust assets.
- (e) A trustee may invest in any kind of property or type of investment consistent with the standards of this chapter.
- (f) A trustee who has special skills or expertise, or is named trustee in reliance upon the trustee's representation that the trustee has such special skills or expertise, shall have a duty to use such special skills or expertise.

Section 4. A trustee shall reasonably diversify the investments of the trust unless, under the circumstances, it is prudent not to do so.

Section 5. Within a reasonable time after accepting a trusteeship or receiving trust assets, a trustee shall review the trust assets and make and implement decisions concerning the retention and disposition of assets, in order to bring the trust portfolio into compliance with the purposes, terms, and the other circumstances of the trust, and with the requirements of this chapter.

Section 6. A trustee shall invest and manage the trust assets solely in the interest of the beneficiaries.

Section 7. If a trust has two or more beneficiaries, the trustee shall act impartially in investing and managing the trust assets, taking into account any differing interests of the beneficiaries.

Section 8. In investing and managing trust assets, a trustee shall incur only costs that are appropriate and reasonable in relation to the assets, the purpose of the trust, and the skills of the trustee.

Section 9. Compliance with the prudent investor rule shall be determined in light of the facts and circumstances existing at the time of a trustee's decision or action.

Section 10. (a) A trustee may delegate investment and management functions if it is prudent to do so. A trustee shall exercise reasonable care, skill and caution in:

- (1) selecting an agent;
  - (2) establishing the scope and terms of the delegation, consistent with the purposes and terms of the trust; and
  - (3) periodically reviewing the agent's actions in order to monitor the agent's performance and compliance with the terms of the delegation.
- (b) In performing a delegated function, an agent shall owe a duty to the trust to exercise reasonable care to comply with the terms of the delegation.
- (c) A trustee who complies with the requirements of subsection (a) shall not be liable to the beneficiaries or to the trust for the decisions or actions of the agent to whom the function was delegated.
- (d) By accepting the delegation of trust functions from the trustee of a trust that is subject to the laws of the commonwealth, an agent submits to the jurisdiction of the courts of the commonwealth.

Section 11. The following terms or comparable language in the provisions of a trust, unless otherwise limited or modified, authorize any investment or strategy permitted under this chapter and shall not be interpreted to be a restriction, elimination, or other alteration of the prudent investor rule for purposes of subsection (b) of section 2: "investments permissible by law for investment of trust funds", "legal investments", "authorized investments", "using the judgment and care under the circumstances then prevailing that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital", "prudent man rule", "prudent trustee rule", "prudent person rule", and "prudent investor rule".

Approved December 4, 1998.

## Options for Enabling Resolutions for Establishing an Endowment Fund

*Nota bene:* A set of brackets like this [] enclose areas where you should include language appropriate to your particular fellowship or congregation. Where there are options to choose from, each option is enclosed within brackets like this {} and introduced with the word “*option*” italicized.

## Amendment to Congregational Bylaws

An Endowment Fund, whose purpose, governance, and operational procedures shall be defined by special resolution adopted by the congregation, shall be established.

### A. RESOLUTION TO IMPLEMENT THE ENDOWMENT FUND

WHEREAS, stewardship involves the faithful management of all the gifts we have been given--time, talents, the created world and money, including accumulated, inherited and appreciated resources; and

WHEREAS, we can support the religious mission and work of this congregation through transfers of property (cash, stocks, bonds, real estate), charitable bequests in Wills, charitable remainder and other trusts, pooled income funds, charitable gift annuities, and assignment of life insurance and retirement plans; and

WHEREAS, it is the desire of the congregation to encourage, receive, and administer these gifts in a manner consistent with the loyalty and devotion expressed by the grantors and in accord with the policies of this congregation:

THEREFORE BE IT RESOLVED, that this congregation, in [annual] meeting assembled on [date], approve and establish on the records of the congregation a new and separate fund to be known as THE [name of your endowment fund in all caps], (hereafter called the “FUND”);

BE IT FURTHER RESOLVED, that the purpose of this FUND is to enhance the mission of [name of congregation] apart from the general operation of the congregation; that no portion of distributions from the FUND shall be used for the annual operating budget of the congregation;

{*Option A*: that only in particular, temporary, difficult circumstances, and where integrity of gift restrictions permit, may this congregation, by action in meeting assembled, use FUND distributions for its own operating or support services;

*Option B*: that no more than 10% of the annual operating budget of the congregation may be funded by distributions from the FUND, except in particular, temporary, difficult circumstances...(continued as in *Option A* above);}

and that, except where specifically authorized otherwise in the terms of a gift, distributions from the FUND will be made annually, in amounts not to exceed 5% of the average fair market value of the FUND over the previous thirteen quarters;

BE IT FURTHER RESOLVED, that the Endowment Fund Committee (hereinafter called the “COMMITTEE”) shall be the custodian of the FUND;

BE IT FURTHER RESOLVED, that the following Plan of Operation sets forth the administration and management of the FUND.

## **B. PLAN OF OPERATION**

### 1. The Endowment Committee

The Endowment Committee (hereafter, the “COMMITTEE”) shall consist of five (5) members, all of whom shall be voting members of (name of congregation). Except as herein limited, the term of each member shall be three (3) years. The minister and the president/vice president of the Church Board shall be advisory members of the COMMITTEE.

Upon adoption of this resolution by the congregation, it shall elect five (5) members of the COMMITTEE: two (2) for a term of three (3) years; two (2) for a term of two (2) years; and one (1) for a term of one (1) year. Thereafter, at each annual meeting, the congregation shall elect the necessary number for a term of three (3) years.

No member shall serve more than two consecutive three-year terms. After a lapse of one (1) year, former COMMITTEE members may be re-elected.



The Board of the congregation shall nominate new members for the COMMITTEE and report at the annual congregational meeting in the same manner as for other offices and committees.

In the event of a vacancy on the COMMITTEE, the Board shall appoint a member to fill the vacancy until the next annual meeting of the congregation, at which time the congregation shall elect a member to fulfill the term of the vacancy.

The COMMITTEE shall meet at least quarterly, or more frequently as deemed by it in the best interest of the FUND. A quorum shall consist of three (3) members. A majority present and voting shall carry any motion or resolution. The committee shall elect from its membership a chairperson, financial secretary and recording secretary. The chairperson, or member designated by the chairperson, shall preside at all committee meetings.

The recording secretary shall maintain complete and accurate minutes of all meetings of the COMMITTEE and supply a copy thereof to each member of the COMMITTEE. Each member shall keep a complete copy of minutes to be delivered to her or his successor. The secretary shall also supply a copy of the minutes to the Church Board.

The financial secretary shall assist the congregation's treasurer in maintaining complete and accurate books of accounts for the FUND and shall submit to the treasurer on behalf of the COMMITTEE written requests for checks payable from the FUND and shall sign all other necessary documents on behalf of the congregation in furtherance of the purposes of the FUND.

*{Option A: The financial secretary shall sign all checks payable from the FUND in amounts no greater than \$250.00. Two authorized signatures are required for greater amounts.}*

The books shall be audited annually by a certified public accountant or other appropriate person who is not a member of the COMMITTEE. The COMMITTEE shall report on a quarterly basis to the Board and, at each annual or special meeting of the congregation, shall render a full and complete audited account of the administration of the FUND during the preceding year.

The COMMITTEE may request other members of the congregation to serve as advisory members and, at the expense of FUND (taken from the annual distribution amount OR undistributed capital appreciation), may provide for such professional counseling on investments or legal matters as it deems to be in the best interest of the fund.

Members of the COMMITTEE shall not be liable for any losses which may be incurred upon the investments of the assets of the FUND except to the extent that such losses shall have been caused by bad faith or gross negligence. No member shall be

personally liable as long as she or he acts in good faith and with ordinary prudence. Each member shall be liable only for his/her own willful misconduct or omissions and shall not be liable for the acts or omissions of any other member. 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 her or his personal interests would conflict with the interest of the FUND.

All assets are to be held in the name of the [name of congregation] [name of the Endowment Fund].

Recommendations 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, debentures, mortgages, notes, or other securities, as in their judgment and discretion they deem wise and prudent, are to be made by the COMMITTEE for approval by the Church Board, with subsequent execution by the delegated member of the COMMITTEE.

## 2. Distributions

The COMMITTEE shall abide by and keep a record of the terms and restrictions of all gifts to the FUND and shall determine what is principal and income according to accepted accounting procedures.

*{Option A: Lifetime and testamentary unrestricted gifts to the FUND shall accumulate until a fair market value of \$\_\_\_\_\_ is achieved, after which annual distributions may commence. However, should the fair market value of the FUND subsequently decline to less than \$\_\_\_\_\_, distributions shall be made only upon a 2/3 majority vote of approval from the congregation.*

*Option B: Lifetime and testamentary gifts to the FUND shall accumulate for (X) years, after which annual distributions may commence.*

*Option C: Distributions from the FUND shall be made annually and at such other times as deemed necessary and/or feasible to accomplish the following purposes:*

Option C1. One-third (1/3) for the physical plant of [name of congregation], such as but not limited to maintenance of buildings, capital improvements or renovations, or debt reduction;

One-third (1/3) for outreach into the community, including, but not limited to, grants to UU camps and conferences, theological schools, local social service agencies or institutions to which this congregation relates, and to special programs designed for those

persons in our community who are in spiritual and/or economic need; and

One-third (1/3) for the wider mission of Unitarian Universalism, including, but not limited to, grants to the UUA for new church development; leadership training; community and educational ministries; world mission; capital financing; scholarships or grants to members of [name of congregation] for the purpose of attending college, theological, nursing, or medical school; for UU-related camping or leadership conferences; or such other training which enables members of this congregation to grow in faith and service to Unitarian Universalism.

Option C2. One-quarter (1/4) for the physical plant of (name of congregation), such as but not limited to maintenance of buildings, capital improvements or renovations, or debt reduction;

One-fourth (1/4) for scholarships or grants to members of (name of congregation) for the purpose of attending college, theological, nursing or medical school; for UU-related camping or leadership conferences; or such other training which enables members of this congregation to grow in faith and service to Unitarian Universalism;

One-fourth (1/4) for outreach into the community including, but not limited to, grants to UU camps and conference centers, theological schools, social service agencies or institutions to which this congregation relates, and to special programs designed for those persons in our community who are in spiritual and/or economic need; and

One-fourth (1/4) for the wider mission of the UUA at home and overseas, including, but not limited to, grants to the UUA for new church development, professional leadership, educational ministries, world mission, and capital financing.}

Programs for support shall be recommended by the COMMITTEE and approved by the Board for funding. Suggestions or requests for funding are to be submitted to the COMMITTEE by (month and date) of each year.

### 3. Amending the Resolution

BE IT FURTHER RESOLVED, that any amendment to this resolution, which will change, alter or amend the purpose for which the FUND is established shall be adopted by a two-thirds vote of the members present at an annual meeting called specifically for the purpose of amending this resolution.

#### 4. Disposition or Transfer of FUND

BE IT FURTHER RESOLVED, that in the event [name of congregation] ceases to exist either through merger or dissolution, disposition or transfer of the FUND shall be at the discretion of the Church Board in conformity with the approved congregational constitution and in consultation with the Unitarian Universalist Association.

Consultation with the Association may also be desirable for continuation of [name of endowment fund] obligations to grantors of gifts.

### **C. ADOPTION OF RESOLUTION**

This resolution, recommended by the Church Board and accepted by the congregation at a legally called congregational meeting, is hereby adopted.

\_\_\_\_\_ By \_\_\_\_\_  
[Name of Congregation] President

and \_\_\_\_\_ Secretary

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 200\_\_

## **Sample Endowment Document**

I. The church shall have a separate Endowment to assure the long range financial future of the church, to help the church manage and survive financial emergencies, and to fund capital needs and special projects that further the mission of the church.

II. The Endowment shall be governed by an Endowment Committee, which shall serve as the custodian of the Endowment Investment and Distribution Policy passed by a vote of two-thirds of the members of the congregation., This policy shall provide for the protection of the corpus of the Endowment over the long term and shall require the Committee to exercise the utmost of care to respect the integrity of restrictions placed on any gift to the Endowment.

III. The Endowment Committee shall consist of three members of the congregation. Except in the initial election, when shortened terms will enable a staggered rotation of members, the term of each Committee member will be three years. No member may serve more than two consecutive 3-year terms. After a lapse of one year, former Committee members can be re-elected. No member may serve on the Endowment Committee while also serving on the church governing Board or as an elected officer of the congregation.

IV. A unanimous vote of the members of the Endowment Committee is needed to carry any motion or resolution. The Committee shall elect its own chairperson. The Committee shall report to the Board on a quarterly basis and provide a written report to the congregation at the annual meeting.

V. The Endowment Committee is empowered, acting through its elected chair, to hold, sell, exchange, rent, lease, transfer, convert, invest, reinvest, and in all other respects manage and control the assets of the Endowment pursuant to the Endowment Investment and Distribution Policy. The Committee shall act in its sole judgment and discretion as it deems wise and prudent, without further approvals.

VI. Committee members shall not be liable for any losses incurred by the Endowment except to the extent that such losses arise out of acts or omissions of willful misconduct or gross negligence. Each member shall be liable for his/her own acts and omissions of willful misconduct or gross negligence and not for the acts or omissions of other members. No member of the Committee shall engage in any self-dealing or transactions with the Endowment in which the members has direct or indirect financial

interest. Members shall refrain at all times from conduct in which his/her personal interests would conflict with the interest of the Endowment.

### **ENDOWMENT INVESTMENT AND DISTRIBUTION POLICY:**

*This sample Policy is intended to reduce use of earnings from endowment for the general operations of the church over a five year time period. The Policy also provides for continued growth of the endowment principal by limiting the amounts available for distribution to a small portion of the total assets over a three year average.*

#### **A. General**

1. The Committee shall invest the assets of the Endowment with the objective of earning an average annual total return of eight to twelve percent consistent with moderate risk. The Committee shall endeavor to invest the assets of the Endowment in a socially responsible manner. It is intended that reasonable restrictions placed on any gift by the donor will be faithfully followed, subject to the Committee's determination of the integrity and best interests of the Endowment.
2. In order to protect and preserve the corpus of the Endowment over the long term, the Committee shall not distribute more than four percent per year of the total market value of the assets, as determined by the average total market value on the last business day of each of the four immediately preceding calendar quarters. If less than four percent is distributed in one year, the Committee may distribute more than four percent in a subsequent year, as long as the distributions do not exceed four percent on a cumulative basis.
3. The Committee may provide for such professional counsel on investments or legal matters as it deems best, and it may incur reasonable expenses in the execution of its duties. The expenses shall be paid from the Endowment.
4. All members of the congregation are encouraged to consider leaving a bequest of at least five times their annual pledge to the Endowment in their wills. This Endowment

Investment and Distribution Policy may be amended only by a two-thirds majority vote of the congregation.

#### **B. Three Funds**

The Endowment shall be composed of three funds, which may be co-mingled for ease of investment management. The Committee shall separately account for each of these funds, attributing to each its proportionate share of changes in investment values, as well as recording gifts to and distributions from each of the funds. The distribution limit outlined above shall be applied on a fund by fund basis. The use to be made of the allowed distribution from each of the three funds is determined by the congregation

as part of its customary budgeting process. Gifts and bequests to the Endowment may be designated for any of the three funds. Undesignated gifts shall be deposited to the Unrestricted Reserve Fund.

The three funds are established as follows:

1. Fifty percent of the initial assets of the Endowment shall be allocated to the Unrestricted Reserve Fund.
2. Thirty percent of the initial assets of the Endowment shall be allocated to the Building Reserve Fund.
3. Twenty percent of the initial assets of the Endowment shall be allocated to the Social Outreach and Service Fund.

### **C. Unrestricted Reserve Fund**

1. Distributions from the Unrestricted Reserve Fund may be used for any purpose to further the work of the church, but shall not be used for the ordinary and customary operating expenses of the Church, except as provided below.
2. Distributions from the Unrestricted Reserve Fund may be used for the ordinary and customary operating expenses of the Church only as follows:
  - a. \$10,000 maximum distribution in the first year of this Policy;
  - b. \$8,000 maximum distribution in the second year of this Policy;
  - c. \$6,000 maximum distribution in the third year of this Policy;
  - d. \$4,000 maximum distribution on the fourth year of this Policy;
  - e. \$2,000 maximum distribution in the fifth year of this Policy.

In subsequent years, any distribution from the Unrestricted Reserve Fund for the ordinary and customary operating expenses of the church will require a two-thirds majority vote of the congregation.

3. In addition to the distributions provided for above, and upon the request of the Treasurer, the Committee may from time to time loan money from the Unrestricted Reserve Fund to the church to help manage temporary cash flow needs caused by month to month variations in the collection of pledges and other gifts on such terms and at such rates of interest and in such amounts as the Committee deems appropriate.

### **D. Building Reserve Fund**

1. Distributions from the Building Reserve Fund shall only be used to help pay for major capital expenditures and significant improvement projects related to the church's buildings and real property, including grounds and landscaping, over and above regular maintenance.
2. In addition to the permitted distribution, the Committee may from time to time loan money from this Building Reserve Fund to the church to help advance a particular

improvement project on such terms and at such rates of interest and in such amounts as the Committee deems appropriate.

#### **E. The Social Outreach and Service Fund**

1. Distributions from the Social Outreach and Service Fund shall only be used to further the church's mission of supporting individual and collective service to the larger community. This fund is not intended to support activities for the church community itself, but is intended for social responsibility efforts in the broader community at large.
2. In addition to the permitted distribution, and with the approval of the congregation, the Committee may make direct investment of not more than 20% of the assets in the Social Outreach and Service Fund in housing, social service, or community or economic development activities in furtherance of the mission of the church and the purpose of this Fund.